

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

(Mark One)

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

For the quarterly period ended March 26, 2022
OR

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 001-04298

COHU, INC.

(Exact name of registrant as specified in its charter)

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

95-1934119
(I.R.S. Employer Identification No.)

12367 Crosthwaite Circle, Poway, California
(Address of principal executive offices)

92064-6817
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Exchange on Which Registered</u>
Common Stock, \$1.00 par value	COHU	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of April 19, 2022, the Registrant had 48,634,256 shares of its \$1.00 par value common stock outstanding.

COHU, INC.
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Item 1.

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

	March 26, 2022 (Unaudited)	December 25, 2021*
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 267,068	\$ 290,201
Short-term investments	91,502	89,704
Accounts receivable, net	210,742	192,873
Inventories	160,363	161,053
Prepaid expenses	21,657	16,194
Other current assets	824	768
Total current assets	<u>752,156</u>	<u>750,793</u>
Property, plant and equipment, net	63,912	63,957
Goodwill	216,234	219,791
Intangible assets, net	166,743	177,320
Other assets	19,430	22,123
Operating lease right of use assets	24,870	25,060
	<u>\$ 1,243,345</u>	<u>\$ 1,259,044</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	\$ 2,048	\$ 3,059
Current installments of long-term debt	4,310	11,338
Accounts payable	85,631	85,230
Customer advances	13,277	7,300
Accrued compensation and benefits	29,117	39,835
Deferred profit	11,001	13,208
Accrued warranty	5,981	6,614
Income taxes payable	8,845	6,873
Other accrued liabilities	16,259	19,002
Total current liabilities	<u>176,469</u>	<u>192,459</u>
Long-term debt	101,959	103,393
Deferred income taxes	23,903	25,887
Noncurrent income tax liabilities	6,145	6,138
Accrued retirement benefits	17,959	18,037
Long-term lease liabilities	21,782	22,040
Other accrued liabilities	8,231	8,588
Stockholders' equity		
Preferred stock, \$1 par value; 1,000 shares authorized, none issued	-	-
Common stock, \$1 par value; 60,000 shares authorized, 49,025 shares issued and outstanding in 2022 and 48,756 shares in 2021	49,025	48,756
Paid-in capital	673,034	674,777
Treasury stock, at cost; 420 shares in 2022 and 207 shares in 2021	(13,712)	(7,324)
Retained earnings	215,124	193,555
Accumulated other comprehensive loss	(36,574)	(27,262)
Total stockholders' equity	<u>886,897</u>	<u>882,502</u>
	<u>\$ 1,243,345</u>	<u>\$ 1,259,044</u>

* Derived from December 25, 2021 audited financial statements

The accompanying notes are an integral part of these statements.

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

	Three Months Ended	
	March 26, 2022	March 27, 2021
Net sales	\$ 197,757	\$ 225,488
Cost and expenses:		
Cost of sales ⁽¹⁾	106,601	123,283
Research and development	23,106	23,152
Selling, general and administrative	31,246	32,624
Amortization of purchased intangible assets	8,535	9,244
Restructuring charges	576	1,340
Loss on sale of PCB Test business	-	115
	<u>170,064</u>	<u>189,758</u>
Income from operations	27,693	35,730
Other (expense) income:		
Interest expense	(981)	(2,575)
Interest income	111	50
Foreign transaction gain (loss)	1,144	(262)
Loss on extinguishment of debt	(104)	(1,761)
Income from operations before taxes	27,863	31,182
Income tax provision	6,294	3,575
Net income	<u>\$ 21,569</u>	<u>\$ 27,607</u>
Income per share:		
Basic	<u>\$ 0.44</u>	<u>\$ 0.63</u>
Diluted	<u>\$ 0.44</u>	<u>\$ 0.61</u>
Weighted average shares used in computing income per share:		
Basic	<u>48,778</u>	<u>43,756</u>
Diluted	<u>49,569</u>	<u>45,482</u>

(1) Excludes amortization of \$6,696 and \$7,101 for the three months ended March 26, 2022 and March 27, 2021, respectively.

The accompanying notes are an integral part of these statements.

COHU, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(in thousands)

	Three Months Ended	
	March 26, 2022	March 27, 2021
Net income	\$ 21,569	\$ 27,607
Other comprehensive loss, net of tax:		
Foreign currency translation adjustments	(8,903)	(10,246)
Adjustments related to postretirement benefits	(61)	(180)
Change in unrealized gain/loss on investments	(348)	(6)
Other comprehensive loss, net of tax	(9,312)	(10,432)
Comprehensive income	\$ 12,257	\$ 17,175

The accompanying notes are an integral part of these statements.

COHU, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except par value and per share amounts)

	Common stock \$1 par value	Paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total
Three Months Ended March 27, 2021						
Balance at December 26, 2020	\$ 42,190	\$ 448,194	\$ 26,230	\$ (4,326)	\$ -	\$ 512,288
Net income	-	-	27,607	-	-	27,607
Changes in cumulative translation adjustment	-	-	-	(10,246)	-	(10,246)
Adjustments related to postretirement benefits, net of tax	-	-	-	(180)	-	(180)
Changes in unrealized gains and losses on investments, net of tax	-	-	-	(6)	-	(6)
Exercise of stock options	192	1,730	-	-	-	1,922
Shares issued for restricted stock units vested	526	(526)	-	-	-	-
Repurchase and retirement of stock	(190)	(8,363)	-	-	-	(8,553)
Share-based compensation expense	-	3,523	-	-	-	3,523
Sale of common stock, net of issuance costs	5,693	217,426	-	-	-	223,119
Balance at March 27, 2021	\$ 48,411	\$ 661,984	\$ 53,837	\$ (14,758)	\$ -	\$ 749,474
Three Months Ended March 26, 2022						
Balance at December 25, 2021	\$ 48,756	\$ 674,777	\$ 193,555	\$ (27,262)	\$ (7,324)	\$ 882,502
Net income	-	-	21,569	-	-	21,569
Changes in cumulative translation adjustment	-	-	-	(8,903)	-	(8,903)
Adjustments related to postretirement benefits, net of tax	-	-	-	(61)	-	(61)
Changes in unrealized gains and losses on investments, net of tax	-	-	-	(348)	-	(348)
Shares issued for restricted stock units vested	426	(426)	-	-	-	-
Repurchase and retirement of stock	(157)	(4,739)	-	-	-	(4,896)
Common stock repurchases	-	-	-	-	(6,388)	(6,388)
Share-based compensation expense	-	3,422	-	-	-	3,422
Balance at March 26, 2022	\$ 49,025	\$ 673,034	\$ 215,124	\$ (36,574)	\$ (13,712)	\$ 886,897

The accompanying notes are an integral part of these statements.

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

	Three Months Ended	
	March 26, 2022	March 27, 2021
Cash flows from operating activities:		
Net income	\$ 21,569	\$ 27,607
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on business divestitures	-	115
Loss on extinguishment of debt	104	1,761
Gain from sale of property, plant and equipment	(51)	(65)
Depreciation and amortization	11,667	12,567
Share-based compensation expense	3,422	3,523
Non-cash inventory related charges	647	1,110
Deferred income taxes	397	280
Changes in accrued retiree medical benefits	(10)	(81)
Changes in other accrued liabilities	(332)	(78)
Changes in other assets	(128)	62
Amortization of cloud-based software implementation costs	478	370
Interest capitalized associated with cloud computing implementation	(26)	(43)
Amortization of debt discounts and issuance costs	94	250
Changes in assets and liabilities:		
Customer advances	6,101	882
Accounts receivable	(19,873)	(47,241)
Inventories	(1,123)	(20,804)
Other current assets	(5,675)	(6,629)
Accounts payable	(361)	28,371
Deferred profit	(2,141)	4,383
Income taxes payable	2,257	5,131
Accrued compensation, warranty and other liabilities	(15,059)	(5,457)
Operating lease right-of-use assets	1,343	1,556
Current and long-term operating lease liabilities	(1,309)	(1,382)
Net cash provided by operating activities	1,991	6,188
Cash flows from investing activities:		
Cash received from sale of property, plant and equipment	57	98
Purchases of short-term investments	(45,413)	(129,736)
Sales and maturities of short-term investments	43,250	2,481
Purchases of property, plant and equipment	(2,669)	(2,700)
Net cash used in investing activities	(4,775)	(129,857)
Cash flows from financing activities:		
Payments on current and long-term finance lease liabilities	(44)	(45)
Repurchases of common stock, net	(4,082)	(5,421)
Proceeds from revolving line of credit and construction loans	-	818
Proceeds received from issuance of common stock, net of fees	-	223,118
Repayments of long-term debt	(9,056)	(101,922)
Acquisition of treasury stock	(5,949)	-
Net cash provided by (used in) financing activities	(19,131)	116,548
Effect of exchange rate changes on cash and cash equivalents	(1,218)	882
Net decrease in cash and cash equivalents	(23,133)	(6,239)
Cash and cash equivalents at beginning of period	290,201	149,358
Cash and cash equivalents at end of period	\$ 267,068	\$ 143,119
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 3,669	\$ 279
Inventory capitalized as property, plant and equipment	\$ 460	\$ 455
Property, plant and equipment purchases included in accounts payable	\$ 1,180	\$ 862
Cash paid for interest	\$ 606	\$ 2,532

The accompanying notes are an integral part of these statements.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
March 26, 2022

1. Summary of Significant Accounting Policies

Basis of Presentation

Our fiscal years are based on a 52- or 53-week period ending on the last Saturday in December. Our current fiscal year will end on December 31, 2022 and will be comprised of 53 weeks. The condensed consolidated balance sheet at December 25, 2021, has been derived from our audited financial statements at that date. The interim condensed consolidated financial statements as of March 26, 2022, (also referred to as “the first quarter of fiscal 2022” and “the first three months of fiscal 2022”) and March 27, 2021, (also referred to as “the first quarter of fiscal 2021” and “the first three months of fiscal 2021”) are unaudited. However, in management’s opinion, these financial statements reflect all adjustments (consisting only of normal, recurring items) necessary to provide a fair presentation of our financial position, results of operations and cash flows for the periods presented. The first quarter of fiscal 2022 and 2021 were both comprised of 13 weeks.

Our interim results are not necessarily indicative of the results that should be expected for the full year. For a better understanding of Cohu, Inc. and our financial statements, we recommend reading these interim condensed consolidated financial statements in conjunction with our audited financial statements for the year ended December 25, 2021, which are included in our 2021 Annual Report on Form 10-K, filed with the U. S. Securities and Exchange Commission (“SEC”). In the following notes to our interim condensed consolidated financial statements, Cohu, Inc. is referred to as “Cohu”, “we”, “our” and “us”.

All significant consolidated transactions and balances have been eliminated in consolidation.

Concentration of Credit Risk

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

Our trade accounts receivable are presented net of allowance for credit losses, which is determined in accordance with the guidance provided by Accounting Standards Codification (“ASC”) Topic 326, *Financial Instruments-Credit Losses*, (“ASC 326”). At March 26, 2022 and December 25, 2021 our allowance for credit losses was \$0.2 million and \$0.3 million, respectively. Our customers include semiconductor manufacturers and semiconductor test subcontractors and other customers located throughout the world. While we believe that our allowance for credit losses is adequate and represents our best estimate at March 26, 2022, we will continue to monitor customer liquidity and other economic conditions, including the impact of the COVID-19 pandemic, which may result in changes to our estimates regarding expected credit losses.

Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or net realizable value. Cost includes labor, material and overhead costs. Determining net realizable value of inventories involves numerous estimates and judgments including projecting average selling prices and sales volumes for future periods and costs to complete and dispose of inventory. As a result of these analyses, we record a charge to cost of sales in advance of the period when the inventory is sold when estimated net realizable values are below our costs.

Inventories by category were as follows (*in thousands*):

	March 26, 2022	December 25, 2021
Raw materials and purchased parts	\$ 90,925	\$ 92,798
Work in process	42,417	40,732
Finished goods	27,021	27,523
Total inventories	<u>\$ 160,363</u>	<u>\$ 161,053</u>

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
March 26, 2022

Property, Plant and Equipment

Depreciation and amortization of property, plant and equipment, both owned and under financing lease, is calculated principally on the straight-line method based on estimated useful lives of thirty to forty years for buildings, five to fifteen years for building improvements and three to ten years for machinery, equipment and software. Land is not depreciated.

Property, plant and equipment, at cost, consisted of the following (*in thousands*):

	March 26, 2022	December 25, 2021
Land and land improvements	\$ 7,998	\$ 7,703
Buildings and building improvements	30,987	31,711
Machinery and equipment	97,883	95,542
	136,868	134,956
Less accumulated depreciation and amortization	(72,956)	(70,999)
Property, plant and equipment, net	\$ 63,912	\$ 63,957

Cloud-based Enterprise Resource Planning Implementation Costs

We have capitalized certain costs associated with the implementation of our new cloud-based Enterprise Resource Planning (“ERP”) system in accordance with ASC Topic 350, *Intangibles—Goodwill and Other*, (“ASC 350”). Capitalized costs include only external direct costs of materials and services consumed in developing the system and interest costs incurred, when material, while developing the system.

Unamortized capitalized cloud computing implementation costs totaled \$13.6 million and \$13.5 million at March 26, 2022, and December 25, 2021, respectively. These amounts are recorded within other assets in our condensed consolidated balance sheets. The change in the capitalized amount is costs capitalized in the current period, offset by amortization recorded. We began amortizing some of these costs when our new ERP system was placed into service during the first quarter of 2020 and we continue to capitalize costs related to implementation projects that are ongoing. Implementation costs are amortized using the straight-line method over seven years and we recorded \$0.5 million and \$0.4 million in amortization expense during the three months ended March 26, 2022, and March 27, 2021, respectively.

Segment Information

We applied the provisions of ASC Topic 280, *Segment Reporting*, (“ASC 280”), which sets forth a management approach to segment reporting and establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products, major customers and the geographies in which the entity holds material assets and reports revenue. An operating segment is defined as a component that engages in business activities whose operating results are reviewed by the chief operating decision maker and for which discrete financial information is available. We have determined that our three identified operating segments are: Test Handler Group (THG), Semiconductor Tester Group (STG) and Interface Solutions Group (ISG). Our THG, STG and ISG operating segments qualify for aggregation under ASC 280 due to similarities in their customers, their economic characteristics, and the nature of products and services provided. As a result, we report in one segment, Semiconductor Test and Inspection Equipment (“Semiconductor Test & Inspection”). Prior to the sale of our PCB Test Group (PTG) on June 24, 2021, we reported in two segments, Semiconductor Test & Inspection and PCB Test Equipment (“PCB Test”).

Goodwill and Indefinite-Lived Intangibles, Other Intangible Assets and Long-lived Assets

We evaluate goodwill for impairment annually and when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting unit. 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 fair value of the reporting unit and its carrying value, not to exceed the carrying value of goodwill. 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. Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and factors.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
March 26, 2022

We conduct our annual impairment test as of October 1st of each year and have determined there was no impairment as of October 1, 2021, as the estimated fair values of our reporting units and indefinite-lived intangible assets exceeded their carrying values on that date. Other events and changes in circumstances may also require goodwill to be tested for impairment between annual measurement dates.

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.

During the first quarter of 2022, no events or conditions occurred suggesting an impairment in our goodwill, other intangible assets and long-lived assets.

Product Warranty

Product warranty costs are accrued in the period sales are recognized. Our products are generally sold with standard warranty periods, which differ by product, ranging from 12 to 36 months. Parts and labor are typically covered under the terms of the warranty agreement. Our warranty expense accruals are based on historical and estimated costs by product and configuration. From time-to-time we offer customers extended warranties beyond the standard warranty period. In those situations, the revenue relating to the extended warranty is deferred at its estimated fair value and recognized on a straight-line basis over the contract period. Costs associated with our extended warranty contracts are expensed as incurred.

Restructuring Costs

We record restructuring activities including costs for one-time termination benefits in accordance with ASC Topic 420 ("ASC 420"), *Exit or Disposal Cost Obligations*. The timing of recognition for severance costs accounted for under ASC 420 depends on whether employees are required to render service until they are terminated in order to receive the termination benefits. If employees are required to render service until they are terminated in order to receive the termination benefits, a liability is recognized ratably over the future service period. Otherwise, a liability is recognized when management has committed to a restructuring plan and has communicated those actions to employees. Employee termination benefits covered by existing benefit arrangements are recorded in accordance with ASC Topic 712, *Nonretirement Postemployment Benefits*. These costs are recognized when management has committed to a restructuring plan and the severance costs are probable and estimable. See Note 4, "Restructuring Charges" for additional information.

Debt Issuance Costs

We capitalize costs related to the issuance of debt. Debt issuance costs that were directly related to our Term Loan B are presented within noncurrent liabilities as a reduction of long-term debt in our condensed consolidated balance sheets. The amortization of such costs is recognized as interest expense using the effective interest method over the term of the respective debt issue. Amortization related to deferred debt issuance costs and original discount costs was \$0.1 million and \$0.3 million for the three months ended March 26, 2022 and March 27, 2021, respectively.

Foreign Remeasurement and Currency Translation

Assets and liabilities of our wholly owned foreign subsidiaries that use the U.S. Dollar as their functional currency are re-measured using exchange rates in effect at the end of the period, except for nonmonetary assets, such as inventories and property, plant and equipment, which are re-measured using historical exchange rates. Revenues and costs are re-measured using average exchange rates for the period, except for costs related to those balance sheet items that are re-measured using historical exchange rates. Gains and losses on foreign currency transactions are recognized as incurred. During the three months ended March 26, 2022, we recognized foreign exchange gains of \$1.1 million, in our condensed consolidated statements of income. During the three months ended March 27, 2021, we recognized foreign exchange losses of \$0.3 million.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
March 26, 2022

Certain of our foreign subsidiaries have designated the local currency as their functional currency and, as a result, their assets and liabilities are translated at the rate of exchange at the balance sheet date, while revenue and expenses are translated using the average exchange rate for the period. Cumulative translation adjustments resulting from the translation of the financial statements are included as a separate component of stockholders' equity.

Foreign Exchange Derivative Contracts

We operate and sell our products in various global markets. As a result, we are exposed to changes in foreign currency exchange rates. We enter into foreign currency forward contracts with a financial institution to hedge against future movements in foreign exchange rates that affect certain existing U.S. Dollar denominated assets and liabilities held at our subsidiaries whose functional currency is the local currency. For accounting purposes, our foreign currency forward contracts are not designated as hedging instruments and, accordingly, we record the fair value of these contracts as of the end of our reporting period in our condensed consolidated balance sheets with changes in fair value recorded within foreign transaction gain (loss) in our condensed consolidated statements of income for both realized and unrealized gains and losses. See Note 7, "Derivative Financial Instruments" for additional information.

Share-Based Compensation

We measure and recognize all share-based compensation under the fair value method. Our estimate of share-based compensation expense requires a number of complex and subjective assumptions including our stock price volatility, employee exercise patterns (expected life of the options) and related tax effects. The assumptions used in calculating the fair value of share-based awards represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment. Although we believe the assumptions and estimates we have made are reasonable and appropriate, changes in assumptions could materially impact our reported financial results.

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

	Three Months Ended	
	March 26, 2022	March 27, 2021
Cost of sales	\$ 145	\$ 262
Research and development	752	781
Selling, general and administrative	2,525	2,480
Total share-based compensation	3,422	3,523
Income tax benefit	(1,626)	(234)
Total share-based compensation, net	<u>\$ 1,796</u>	<u>\$ 3,289</u>

Income Per Share

Basic income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted income per share includes the dilutive effect of common shares potentially issuable upon the exercise of stock options, vesting of outstanding restricted stock and performance stock units and issuance of stock under our employee stock purchase plan using the treasury stock method. In loss periods, potentially dilutive securities are excluded from the per share computations due to their anti-dilutive effect. For purposes of computing diluted income per share, stock options with exercise prices that exceed the average fair market value of our common stock for the period are excluded. For the three months ended March 26, 2022, approximately 224,000 shares of common stock were excluded from the computation. For the three months ended March 27, 2021, no shares were excluded from the computation. All shares repurchased and held as treasury stock are reflected as a reduction to our basic weighted average shares outstanding based on the trade date of the share repurchase.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
March 26, 2022

The following table reconciles the denominators used in computing basic and diluted income per share (*in thousands*):

	Three Months Ended	
	March 26, 2022	March 27, 2021
Weighted average common shares	48,778	43,756
Effect of dilutive securities	791	1,726
	49,569	45,482

Leases

We determine if a contract contains a lease at inception. Operating leases are included in operating lease right of use (“ROU”) assets, current other accrued liabilities, and long-term lease liabilities on our condensed consolidated balance sheets. Finance leases are included in property, plant and equipment, other current accrued liabilities, and long-term lease liabilities on our condensed consolidated balance sheets.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the adoption date or the commencement date for leases entered into after the adoption date. As most of our leases do not provide an implicit rate, we use our incremental borrowing rates for the remaining lease terms based on the information available at the adoption date or commencement date in determining the present value of future payments.

The operating lease ROU asset also includes any lease payments made, lease incentives, favorable and unfavorable lease terms recognized in business acquisitions and excludes initial direct costs incurred and variable lease payments. Variable lease payments include estimated payments that are subject to reconciliations throughout the lease term, increases or decreases in the contractual rent payments, as a result of changes in indices or interest rates and tax payments that are based on prevailing rates. Our lease terms may include renewal options to extend the lease when it is reasonably certain that we will exercise those options. In addition, we include purchase option amounts in our calculations when it is reasonably certain that we will exercise those options. Rent expense for minimum payments under operating leases is recognized on a straight-line basis over the term.

Leases with an initial term of 12 months or less are not recorded on the balance sheet but recognized in our condensed consolidated statements of income on a straight-line basis over the lease term. We account for lease and non-lease components as a single lease component and include both in our calculation of the ROU assets and lease liabilities.

We sublease certain leased assets to third parties, mainly as a result of unused space in our facilities. None of our subleases contain extension options. Variable lease payments in our subleases include tax payments that are based on prevailing rates. We account for lease and non-lease components as a single lease component.

Revenue Recognition

Our net sales are derived from the sale of products and services and are adjusted for estimated returns and allowances, which historically have been insignificant. We recognize revenue when the obligations under the terms of a contract with our customers are satisfied; generally, this occurs with the transfer of control of our systems, non-system products or services. In circumstances where control is not transferred until destination or acceptance, we defer revenue recognition until such events occur.

Revenue for established products that have previously satisfied a customer’s acceptance requirements is generally recognized upon shipment. In cases where a prior history of customer acceptance cannot be demonstrated or from sales where customer payment dates are not determinable and in the case of new products, revenue and cost of sales are deferred until customer acceptance has been received. Our post-shipment obligations typically include installation and standard warranties. The relative standalone selling price of installation related revenue is recognized in the period the installation is performed. Service revenue is recognized over time as we transfer control to our customer for the related contract or upon completion of the services if they are short-term in nature. Spares, contactor and kit revenue is generally recognized upon shipment.

Certain of our equipment sales have multiple performance obligations. These arrangements involve the delivery or performance of multiple performance obligations, and transfer of control of performance obligations may occur at different points in time or over different periods of time. For arrangements containing multiple performance obligations, the revenue relating to the undelivered performance obligation is deferred using the relative standalone selling price method utilizing estimated sales prices until satisfaction of the deferred performance obligation.

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Unsatisfied performance obligations primarily represent contracts for products with future delivery dates. At March 26, 2022, we had \$7.6 million of revenue expected to be recognized in the future related to performance obligations that were unsatisfied (or partially unsatisfied) for contracts with original expected durations of over one year. As allowed under ASC 606, we have opted to not disclose unsatisfied performance obligations for contracts with original expected durations of less than one year.

We generally sell our equipment with a product warranty. The product warranty provides assurance to customers that delivered products are as specified in the contract (an “assurance-type warranty”). Therefore, we account for such product warranties under ASC 460, *Guarantees* (“ASC 460”), and not as a separate performance obligation.

The transaction price reflects our expectations about the consideration we will be entitled to receive from the customer and may include fixed or variable amounts. Fixed consideration primarily includes sales to customers that are known as of the end of the reporting period. Variable consideration includes sales in which the amount of consideration that we will receive is unknown as of the end of a reporting period. Such consideration primarily includes sales made to certain customers with cumulative tier volume discounts offered. Variable consideration arrangements are rare; however, when they occur, we estimate variable consideration as the expected value to which we expect to be entitled. Included in the transaction price estimate are amounts in which it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration that does not meet revenue recognition criteria is deferred.

Our contracts are typically less than one year in duration and we have elected to use the practical expedient available in ASC 606 to expense cost to obtain contracts as they are incurred because they would be amortized over less than one year.

Accounts receivable represents our unconditional right to receive consideration from our customer. Payments terms do not exceed one year from the invoice date and therefore do not include a significant financing component. To date, there have been no material impairment losses on accounts receivable. There were no material contract assets or contract liabilities recorded on our condensed consolidated balance sheet in any of the periods presented.

On shipments where sales are not recognized, gross profit is generally recorded as deferred profit in our condensed consolidated balance sheet representing the difference between the receivable recorded and the inventory shipped. At March 26, 2022, we had deferred revenue totaling approximately \$19.4 million, current deferred profit of \$11.0 million and deferred profit expected to be recognized after one year included in noncurrent other accrued liabilities of \$5.9 million. At December 25, 2021, we had deferred revenue totaling approximately \$21.9 million, current deferred profit of \$13.2 million and deferred profit expected to be recognized after one year included in noncurrent other accrued liabilities of \$6.1 million.

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Net sales of our reportable segments, by type, are as follows (*in thousands*):

<i>Disaggregated Net Sales</i>	Three Months Ended	
	March 26, 2022	March 27, 2021
<i>Systems:</i>		
Semiconductor Test & Inspection	\$ 117,349	\$ 138,159
PCB Test	-	8,620
<i>Non-systems:</i>		
Semiconductor Test & Inspection	80,408	74,247
PCB Test	-	4,462
Total net sales	\$ 197,757	\$ 225,488

Revenue by geographic area based upon product shipment destination (*in thousands*):

<i>Disaggregated Net Sales</i>	Three Months Ended	
	March 26, 2022	March 27, 2021
China	\$ 38,653	\$ 54,265
Philippines	24,385	33,754
United States	23,763	20,059
Malaysia	20,116	23,259
Taiwan	19,808	32,196
Rest of the World	71,032	61,955
Total net sales	\$ 197,757	\$ 225,488

A small number of customers historically have been responsible for a significant portion of our net sales. Significant customer concentration information, by reportable segment, is as follows:

	Three Months Ended	
	March 26 2022	March 27 2021
<i>Semiconductor Test & Inspection</i>		
Customers individually accounting for more than 10% of net sales	one	*
Percentage of net sales	11%	*
<i>PCB Test</i>		
Customers individually accounting for more than 10% of net sales	N/A	*
Percentage of net sales	N/A	*

* No single customer represented more than 10% of consolidated net sales.

Accumulated Other Comprehensive Loss

Our accumulated other comprehensive loss balance totaled approximately \$36.6 million and \$27.3 million at March 26, 2022 and December 25, 2021, respectively, and was attributed to all non-owner changes in stockholders' equity and consists of, on an after-tax basis where applicable, foreign currency adjustments resulting from the translation of certain of our subsidiary accounts where the functional currency is not the U.S. Dollar, unrealized loss on investments and adjustments related to postretirement benefits. Reclassification adjustments from accumulated other comprehensive loss during the three months of fiscal 2022 and 2021 were not significant.

Retiree Medical Benefits

We provide post-retirement health benefits to certain retired executives, one director (who is a former executive) and their eligible dependents under a noncontributory plan. These benefits are no longer offered to any other retired Cohu employees. The net periodic benefit cost incurred during the three months of fiscal 2022 and 2021 was not significant.

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Business Divestitures

On June 24, 2021, we completed the sale of our PCB Test Equipment (“PCB Test”) business, which represented our PCB Test segment. As part of the transaction we also sold certain intellectual property held by our Semiconductor Test & Inspection segment that is utilized by the PCB Test business. See Note 12, “Business Divestitures” for additional information on this transaction.

New Accounting Pronouncements

There have been no material changes in recently issued or adopted accounting standards from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 25, 2021.

2. Goodwill and Purchased Intangible Assets

Goodwill and Intangible Assets

Changes in the carrying value of goodwill during the year ended December 25, 2021, and the three-month period ended March 26, 2022, by segment, were as follows (*in thousands*):

	Semiconductor Test & Inspection	PCB Test	Total
Balance, December 26, 2020	\$ 230,724	\$ 21,580	\$ 252,304
Sale of PCB Test Business ⁽¹⁾	-	(21,899)	(21,899)
Impact of currency exchange	(10,933)	319	(10,614)
Balance, December 25, 2021	219,791	-	219,791
Impact of currency exchange	(3,557)	-	(3,557)
Balance, March 26, 2022	<u>\$ 216,234</u>	<u>\$ -</u>	<u>\$ 216,234</u>

(1) On June 24, 2021, we completed the sale of our PCB Test business. See Note 12, “Business Divestitures” for additional information.

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

	March 26, 2022			December 25, 2021	
	Gross Carrying Amount	Accum. Amort.	Remaining Weighted Average Amort. Period (years)	Gross Carrying Amount	Accum. Amort.
Developed technology	\$ 226,203	\$ 110,082	4.3	\$ 229,131	\$ 104,855
Customer relationships	65,123	27,175	7.2	65,916	26,189
Trade names	20,607	8,071	7.1	20,877	7,714
Covenant not-to-compete	289	151	4.8	308	154
Total intangible assets	<u>\$ 312,222</u>	<u>\$ 145,479</u>		<u>\$ 316,232</u>	<u>\$ 138,912</u>

Changes in the carrying values of purchased intangible assets presented above are a result of the impact of fluctuation in currency exchange rates and the sale of our PCB Test business.

Amortization expense related to intangible assets in the first quarter of fiscal 2022 and 2021 was \$8.5 million and \$9.2 million, respectively.

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3. Borrowings and Credit Agreements

The following table is a summary of our borrowings (*in thousands*):

	March 26, 2022	December 25, 2021
Bank Term Loan under Credit Agreement	\$ 95,255	\$ 103,130
Bank Term Loans-Kita	2,819	3,070
Construction Loan- Cohu GmbH	9,511	10,045
Lines of Credit	2,048	3,059
Total debt	109,633	119,304
Less: financing fees and discount	(1,316)	(1,514)
Less: current portion	(6,358)	(14,397)
Total long-term debt	\$ 101,959	\$ 103,393

Credit Agreement

On October 1, 2018, we entered into a Credit Agreement providing for a \$350.0 million Term Loan Credit Facility and borrowed the full amount to finance a portion of the Xcerra acquisition. Loans under the Term Loan Credit Facility amortize in equal quarterly installments of 0.25% of the original principal amount, with the balance payable at maturity. All outstanding principal and interest in respect of the Term Loan Credit Facility must be repaid on or before October 1, 2025. The loans under the Term Loan Credit Facility bear interest, at Cohu's option, at a floating annual rate equal to LIBOR plus a margin of 3.00%. At March 26, 2022, the outstanding loan balance, net of discount and deferred financing costs, was \$93.9 million and \$3.1 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 25, 2021, the outstanding loan balance, net of discount and deferred financing costs, was \$101.6 million and \$10.1 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. As of March 26, 2022, the fair value of the debt was \$94.3 million. The measurement of the fair value of debt is based on the average of the bid and ask trading quotes as of March 26, 2022 and is considered a Level 2 fair value measurement.

Under the terms of the Credit Agreement, the lender may accelerate the payment terms upon the occurrence of certain events of default set forth therein, which include: the failure of Cohu to make timely payments of amounts due under the Credit Agreement, the failure of Cohu to adhere to the representations and covenants set forth in the Credit Agreement, the failure to provide notice of any event that causes a material adverse effect or to provide other required notices, upon the event that related collateral agreements become ineffective, upon the event that certain legal judgments are entered against Cohu, the insolvency of Cohu, or upon the change of control of Cohu. As of March 26, 2022, we believe no such events of default have occurred.

During the first three months of 2022, we prepaid \$7.0 million in principal of our Term Loan Credit Facility for \$7.0 million in cash. We accounted for the prepayment as a debt extinguishment, which resulted in a loss of \$0.1 million reflected in other expense, net, in our condensed consolidated statement of income and a corresponding \$0.1 million reduction in debt discounts and deferred financing costs in our condensed consolidated balance sheets. During 2021, we prepaid \$200.0 million in principal of our Term Loan Credit Facility for \$200.0 million in cash. We accounted for the prepayment as a debt extinguishment, which resulted in a loss of \$3.4 million reflected in other expense, net, in our condensed consolidated statement of income and a corresponding \$3.4 million reduction in debt discounts and deferred financing costs in our condensed consolidated balance sheets. Approximately \$95.3 million in principal of the Term Loan Credit Facility remains outstanding as of March 26, 2022.

Kita Term Loans

We have a series of term loans with Japanese financial institutions primarily related to the expansion of our facility in Osaka, Japan. The loans are collateralized by the facility and land, carry interest rates ranging from 0.05% to 0.43%, and expire at various dates through 2034. At March 26, 2022, the outstanding loan balance was \$2.8 million and \$0.2 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 25, 2021, the outstanding loan balance was \$3.1 million and \$0.2 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. The fair value of the debt approximates the carrying value at March 26, 2022.

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The term loans are denominated in Japanese Yen and, as a result, amounts disclosed herein will fluctuate because of changes in currency exchange rates.

Construction Loans

In July 2019 and June 2020, one of our wholly owned subsidiaries located in Germany entered into a series of construction loans (“Loan Facilities”) with a German financial institution providing it with total borrowings of up to €10.1 million. The Loan Facilities were utilized to finance the expansion of our facility in Kolbermoor, Germany and are secured by the land and the existing building on the site. The Loan Facilities bear interest at agreed upon rates based on the facility amounts as discussed below.

The first facility totaling €3.4 million has been fully drawn and is payable over 10 years at a fixed annual interest rate of 0.8%. Principal and interest payments are due each quarter over the duration of the facility ending in September 2029. The second facility totaling €5.2 million has been fully drawn and is payable over 15 years at an annual interest rate of 1.05%, which is fixed until April 2027. Principal and interest payments are due each month over the duration of the facility ending in January 2034. The third facility totaling €1.5 million, of which €0.9 million is drawn, is payable over 10 years at an annual interest rate of 1.2%. Principal and interest payments are due each month over the duration of the facility ending in May 2030.

At March 26, 2022, total outstanding borrowings under the Loan Facilities was \$9.5 million with \$1.0 million of the total outstanding balance being presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 25, 2021, total outstanding borrowings under the Loan Facilities was \$10.0 million with \$1.0 million of the total outstanding balance being presented as current installments of long-term debt in our condensed consolidated balance sheets. The loans are denominated in Euros and, as a result, amounts disclosed herein will fluctuate because of changes in currency exchange rates. The fair value of the debt approximates the carrying value at March 26, 2022.

Lines of Credit

As a result of our acquisition of Kita, we assumed a series of revolving credit facilities with various financial institutions in Japan. The credit facilities renew monthly and provide Kita with access to working capital totaling up to 960 million Japanese Yen of which 250 million Japanese Yen is drawn. At March 26, 2022, total borrowings outstanding under the revolving lines of credit were \$2.0 million. As these credit facility agreements renew monthly, they have been included in short-term borrowings in our condensed consolidated balance sheets.

The revolving lines of credit are denominated in Japanese Yen and, as a result, amounts disclosed herein will fluctuate because of changes in currency exchange rates.

Our wholly owned subsidiary in Switzerland has one available line of credit which provides borrowings of up to a total of 2.0 million Swiss Francs, a portion of which is reserved for tax guarantees. At March 26, 2022 and December 25, 2021 no amounts were outstanding under this line of credit.

4. Restructuring Charges

Subsequent to the acquisition of Xcerra on October 1, 2018, during the fourth quarter of 2018, we began a strategic restructuring program designed to reposition our organization and improve our cost structure as part of our targeted integration plan regarding the recently acquired Xcerra (“Integration Program”). As part of the Integration Program we consolidated our global handler and contactor manufacturing operations and closed our manufacturing operations in Penang, Malaysia and Fontana, California in 2019.

In the second quarter of 2019, we entered into a social plan (“Plan”) with the German labor organization representing certain of the employees of our wholly owned subsidiary, Multitest elektronische Systeme GmbH, as part of our Integration Program. During the fourth quarter of 2020 we implemented a voluntary program and termination agreements with certain employees of our wholly owned subsidiary, Cohu GmbH. These programs collectively reduced headcount, enabled us to consolidate the facilities of our multiple operations located near Kolbermoor and Rosenheim, Germany, as well as transitioned certain manufacturing to other lower cost regions. The facility consolidations and reduction in force programs were implemented as part of a comprehensive review of our operations and were intended to streamline and reduce our operating cost structure and capitalize on acquisition synergies.

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As a result of the activities described above, we recognized total pretax charges of \$0.4 million and \$1.7 million for the three months ended March 26, 2022, and March 27, 2021, respectively, that are within the scope of ASC 420, *Exit or Disposal Cost Obligations* (“ASC 420”). All costs of the Integration Program were, and will be, incurred by our Semiconductor Test & Inspection segment.

Costs associated with restructuring activities are presented in our condensed consolidated statements of income as restructuring charges, except for certain costs associated with inventory charges related to the decision to end manufacturing of certain of Xcerra’s semiconductor test handler products, which are classified within cost of sales. Other restructuring costs include expenses for professional fees associated with employee severance, impairments of fixed assets and building close expenses.

The following table summarizes the activity within the restructuring related accounts for the Integration Program during the three months ended March 26, 2022 and March 27, 2021 (*in thousands*):

	Severance and Other Payroll	Other Exit Costs	Total
Balance, December 26, 2020	\$ 5,826	\$ -	\$ 5,826
Costs accrued	952	388	1,340
Amounts paid or charged	(2,444)	(388)	(2,832)
Impact of currency exchange	(140)	-	(140)
Balance, March 27, 2021	<u>\$ 4,194</u>	<u>\$ -</u>	<u>\$ 4,194</u>
Balance, December 25, 2021	\$ 348	\$ -	\$ 348
Costs accrued	(14)	590	576
Amounts paid or charged	(257)	(169)	(426)
Impact of currency exchange	(2)	-	(2)
Balance, March 26, 2022	<u>\$ 75</u>	<u>\$ 421</u>	<u>\$ 496</u>

At March 26, 2022, our total accrual for restructuring related items is reflected within current liabilities of our condensed consolidated balance sheets as these amounts are expected to be paid out within a year. The estimated costs associated with the employee severance and facility consolidation actions will be paid predominantly in cash.

5. Financial Instruments Measured at Fair Value

Our cash, cash equivalents, and short-term investments consisted primarily of cash and other investment grade securities. We do not hold investment securities for trading purposes. All short-term investments in debt securities are classified as available-for-sale and recorded at fair value. Investment securities are exposed to market risk due to changes in interest rates and credit risk and we monitor credit risk and attempt to mitigate exposure by making high-quality investments and through investment diversification.

We assess whether unrealized loss positions on available-for-sale debt securities are due to credit-related factors. The credit-related portion of unrealized losses, and any subsequent improvements, are recorded in earnings through an allowance account. Unrealized gains and losses that are not due to credit-related factors are included in accumulated other comprehensive income (loss). Factors that could indicate an impairment exists include, but are not limited to earnings performance, changes in credit rating or adverse changes in the regulatory or economic environment of the asset. Gross realized gains and losses on sales of short-term investments are included in interest income. Realized gains and losses for the periods presented were not significant.

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

	March 26, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses ⁽¹⁾	Estimated Fair Value
Corporate debt securities ⁽²⁾	\$ 77,246	\$ 1	\$ 292	\$ 76,955
U.S. treasury securities	8,713	-	68	8,645
Bank certificates of deposit	4,300	-	10	4,290
Foreign government security	884	-	-	884
Asset-backed securities	731	-	3	728
	<u>\$ 91,874</u>	<u>\$ 1</u>	<u>\$ 373</u>	<u>\$ 91,502</u>

	December 25, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses ⁽¹⁾	Estimated Fair Value
Corporate debt securities ⁽²⁾	\$ 84,060	\$ 2	\$ 31	\$ 84,031
U.S. treasury securities	3,953	-	5	3,948
Bank certificates of deposit	800	-	-	800
Foreign government security	925	-	-	925
	<u>\$ 89,738</u>	<u>\$ 2</u>	<u>\$ 36</u>	<u>\$ 89,704</u>

(1) As of March 26, 2022 and December 25, 2021, the cost and fair value of investments with loss positions were approximately \$85.0 million and \$57.0 million, respectively. We evaluated the nature of these investments, credit worthiness of the issuer and the duration of these impairments to determine if an other-than-temporary decline in fair value had occurred and concluded that these losses were temporary and we have the ability and intent to hold these investments to maturity.

(2) Corporate debt securities include investments in financial and other corporate institutions. No single issuer represents a significant portion of the total corporate debt securities portfolio.

Effective maturities of short-term investments are as follows (*in thousands*):

	March 26, 2022		December 25, 2021	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 75,633	\$ 75,468	\$ 83,429	\$ 83,408
Due after one year through three years	16,241	16,034	6,309	6,296
	<u>\$ 91,874</u>	<u>\$ 91,502</u>	<u>\$ 89,738</u>	<u>\$ 89,704</u>

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

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The following table summarizes, by major security type, our financial instruments that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (*in thousands*):

Fair value measurements at March 26, 2022 using:				
	Level 1	Level 2	Level 3	Total estimated fair value
Cash	\$ 156,024	\$ -	\$ -	\$ 156,024
U.S. treasury securities	-	8,645	-	8,645
Corporate debt securities	-	79,951	-	79,951
Asset-backed securities	-	728	-	728
Money market funds	-	108,048	-	108,048
Bank certificates of deposit	-	4,290	-	4,290
Foreign government security	-	884	-	884
	<u>\$ 156,024</u>	<u>\$ 202,546</u>	<u>\$ -</u>	<u>\$ 358,570</u>

Fair value measurements at December 25, 2021 using:				
	Level 1	Level 2	Level 3	Total estimated fair value
Cash	\$ 195,297	\$ -	\$ -	\$ 195,297
Corporate debt securities	-	86,535	-	86,535
U.S. treasury securities	-	3,948	-	3,948
Money market funds	-	92,400	-	92,400
Bank certificates of deposit	-	800	-	800
Foreign government security	-	925	-	925
	<u>\$ 195,297</u>	<u>\$ 184,608</u>	<u>\$ -</u>	<u>\$ 379,905</u>

6. Employee Stock Benefit Plans

Our 2005 Equity Incentive Plan (“2005 Plan”) is a broad-based, long-term retention program intended to attract, motivate, and retain talented employees as well as align stockholder and employee interests. Awards that may be granted under the program include, but are not limited to, non-qualified and incentive stock options, restricted stock units, and performance stock units. We settle employee stock option exercises, employee stock purchase plan purchases, and the vesting of restricted stock units, and performance stock units with newly issued common shares. At March 26, 2022, there were 943,106 shares available for future equity grants under the 2005 Plan.

Stock Options

Stock options may be granted to employees, consultants and non-employee directors to purchase a fixed number of shares of our common stock. The exercise prices of options granted are at least equal to the fair market value of our common stock on the dates of grant and options vest and become exercisable in annual increments that range from one to four years from the date of grant. Stock options granted under the 2005 Plan have a maximum contractual term of ten years. In the three months of fiscal 2022 we did not grant any stock options and we did not issue any shares of our common stock on the exercise of options that were granted previously.

At March 26, 2022, we had 12,442 stock options exercisable and outstanding. These options had a weighted-average exercise price of \$9.44 per share, an aggregate intrinsic value of approximately \$0.3 million and the weighted average remaining contractual term was approximately 1.0 year.

Restricted Stock Units

We grant restricted stock units (“RSUs”) to certain employees, consultants and directors. RSUs vest in annual increments that range from one to four years from the date of grant. Prior to vesting, RSUs do not have dividend equivalent rights, do not have voting rights and the shares underlying the RSUs are not considered issued and outstanding. New shares of our common stock will be issued on the date the RSUs vest net of the minimum statutory tax withholding requirements to be paid by us on behalf of our employees. As a result, the actual number of shares issued will be fewer than the actual number of RSUs outstanding at March 26, 2022.

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In the first three months of fiscal 2022, we awarded 362,558 RSUs and issued 370,831 shares of our common stock on vesting of previously granted awards and 8,938 shares were forfeited. At March 26, 2022, we had 1,040,597 RSUs outstanding with an aggregate intrinsic value of approximately \$32.3 million and the weighted average remaining vesting period was approximately 1.7 years.

Performance Stock Units

We also grant performance stock units (“PSUs”) to senior executives as a part of our long-term equity compensation program. The number of shares of common stock that will ultimately be issued to settle PSUs granted ranges from 0% to 200% of the number granted and is determined based on certain performance criteria over a three-year measurement period. The performance criteria for the PSUs are based on a combination of our annualized Total Shareholder Return (“TSR”) for the performance period and the relative performance of our TSR compared with the annualized TSR of certain peer companies or index for the performance period. PSUs granted vest 100% on the third anniversary of their grant, assuming achievement of the applicable performance criteria.

We estimated the fair value of the PSUs using a Monte Carlo simulation model on the date of grant. Compensation expense is recognized ratably over the explicit service period. New shares of our common stock will be issued on the date the PSUs vest net of the minimum statutory tax withholding requirements to be paid by us on behalf of our employees.

In the three months of fiscal 2022, we awarded 150,633 PSUs, we issued 55,009 shares of our common stock on vesting of previously granted awards and 68,975 shares were forfeited. At March 26, 2022, we had 411,139 PSUs outstanding with an aggregate intrinsic value of approximately \$12.8 million and the weighted average remaining vesting period was approximately 1.9 years.

Employee Stock Purchase Plan

The Cohu, Inc. 1997 Employee Stock Purchase Plan (“ESPP”) provides for the issuance of shares of our common stock. Under the ESPP, eligible employees may purchase shares of Cohu common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value of Cohu common stock at the beginning or end of each 6-month purchase period, subject to certain limits. During the three months of fiscal 2022, no shares of our common stock were sold to our employees under the ESPP leaving 507,353 shares available for future issuance.

7. Derivative Financial Instruments

Foreign Exchange Derivative Contracts

We operate and sell our products in various global markets and, as a result, we are exposed to changes in foreign currency exchange rates. In the fourth quarter of 2020, we began utilizing foreign currency forward contracts to offset future movements in foreign exchange rates that affect certain existing foreign currency denominated assets and liabilities. Under this program, our strategy is to have increases or decreases in our foreign currency exposures mitigated by gains or losses on the foreign currency forward contracts to mitigate the risks and volatility associated with foreign currency transaction gains or losses.

We do not use derivative financial instruments for speculative or trading purposes. For accounting purposes, our foreign currency forward contracts are not designated as hedging instruments and, accordingly, we record the fair value of these contracts as of the end of our reporting period in our condensed consolidated balance sheets with changes in fair value recorded within foreign transaction gain (loss) in our condensed consolidated statements of income for both realized and unrealized gains and losses. The cash flows associated with the foreign currency forward contracts are reported in net cash provided by operating activities in our condensed consolidated statements of cash flows.

The fair value of our foreign exchange derivative contracts was determined based on current foreign currency exchange rates and forward points. All our foreign exchange derivative contracts outstanding at March 26, 2022 will mature during the second quarter of fiscal 2022.

Cohu, Inc.
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The following table provides information about our foreign currency forward contracts outstanding as of March 26, 2022 (*in thousands*):

Currency	Contract Position	Contract Amount (Local Currency)	Contract Amount (U.S. Dollars)
Euro	Buy	35,115	\$ 38,700
Swiss Franc	Buy	16,747	18,000
Japanese Yen	Buy	120,920	1,000
			<u>\$ 57,700</u>

Our foreign currency contracts are classified within Level 2 of the fair value hierarchy as they are valued using pricing models that utilize observable market inputs. The fair values of foreign currency contracts outstanding at March 26, 2022 were immaterial.

The location and amount of losses related to non-designated derivative instruments in the condensed consolidated statements of income were as follows (*in thousands*):

Derivatives not designated as hedging instruments	Location of loss recognized on derivatives	Three months ended	
		March 26, 2022	March 27, 2021
Foreign exchange forward contracts	Foreign transaction loss	\$ (1,410)	\$ (1,515)

8. Equity

Common Stock Issuance

On March 8, 2021, we closed an underwritten public offering of 4,950,000 shares of our common stock at \$41.00 per share. As part of the transaction, the underwriters were also granted a 30-day option to purchase up to an aggregate of 742,500 additional shares of common stock to cover over-allotments which was exercised in full on March 11, 2021. The offering, and the follow-on option to sell additional shares, resulted in net proceeds, after deducting underwriting discounts and commissions and offering expenses, of approximately \$223.1 million. All of the shares were sold pursuant to an effective shelf registration statement previously filed with the SEC.

Share Repurchase Program

On October 28, 2021, we announced that our Board of Directors authorized a \$70 million share repurchase program. This share repurchase program was effective as of November 2, 2021 and has no expiration date, and the timing of share repurchases and the number of shares of common stock to be repurchased will depend upon prevailing market conditions and other factors. Repurchases under this program will be made using our existing cash resources and may be commenced or suspended from time-to-time at our discretion without prior notice. Repurchases may be made in the open market, through 10b5-1 programs, or in privately negotiated transactions at prevailing market rates in accordance with federal securities laws. During the three months ended March 26, 2022, we repurchased 213,706 shares of our common stock for \$6.4 million to be held as treasury stock. As of March 26, 2022, \$56.3 million of shares of our common stock remains available for us to repurchase under our share repurchase program.

9. Income Taxes

We used the estimated annual effective tax rate ("ETR") expected to be applicable for the full fiscal year in computing our tax provision. The ETR on income for the three months ended March 26, 2022 was 22.6% and reflects the impact of both new tax regulations and previously-enacted tax regulations now impacting the Company for the first time. New regulations impacting the tax provision include final regulations on foreign tax credits which limit the Company's ability to claim credits in certain jurisdictions. Previously enacted legislation now impacting the Company include the requirements to capitalize research expenditures and software development costs, and the Company now being subjected to base erosion and anti-abuse tax rules as we exceeded certain revenue thresholds. These impacts were offset by a partial release of our domestic valuation allowance on deferred tax assets to offset tax liabilities on current year earnings and excess benefits relating to stock-based compensation. The ETR on income for the three months ended March 27, 2021 was 11.5% which as not impacted by the aforementioned tax regulations, reflected a partial release of our domestic valuation allowance on deferred tax assets to offset tax liabilities on current year earnings and excess benefits relating to stock-based compensation.

Cohu, Inc.
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We conduct business globally and as a result, Cohu or one or more of its subsidiaries files income tax returns in the US and various state and foreign jurisdictions. In the normal course of business, we are subject to examinations by taxing authorities throughout the world and are currently under examination in Germany and Malaysia. We believe our financial statement accruals for income taxes are appropriate.

In accordance with the disclosure requirements as described in ASC Topic 740, Income Taxes, we have classified unrecognized tax benefits as non-current income tax liabilities, or a reduction in non-current deferred tax assets, unless expected to be paid within one year. Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. There were no material changes to our unrecognized tax benefits and interest accrued related to unrecognized tax benefits during the three months ended March 26, 2022 and March 27, 2021.

10. Segment and Geographic Information

The summary below presents our reportable segments, Semiconductor Test & Inspection and PCB Test, for the three-month period ended March 27, 2021. Subsequent to the sale of our PCB Test business on June 24, 2021, we have one reportable segment, Semiconductor Test & Inspection. All amounts presented in our condensed consolidated balance sheet as of March 26, 2022 and our condensed consolidated statement of income for the three months ended March 26, 2022 represents the financial position and results of our remaining reportable segment.

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

	Three Months Ended March 27, 2021
<i>Net sales by segment:</i>	
Semiconductor Test & Inspection	\$ 212,406
PCB Test	13,082
Total consolidated net sales for reportable segments	<u>\$ 225,488</u>
<i>Segment profit before tax:</i>	
Semiconductor Test & Inspection	\$ 36,627
PCB Test	2,429
Profit for reportable segments	<u>39,056</u>
<i>Other unallocated amounts:</i>	
Corporate expenses	(3,473)
Loss on sale of PCB Test business	(115)
Interest expense	(2,575)
Interest income	50
Loss on extinguishment of debt	(1,761)
Income from operations before taxes	<u>\$ 31,182</u>

For revenues by geography and information on customer concentration, see Note 1, "Summary of Significant Accounting Policies".

11. Leases

We lease certain of our facilities, equipment and vehicles under non-cancelable operating and finance leases. Leases with initial terms of 12 months or less are not recorded on the condensed consolidated balance sheet, but we recognize those lease payments in the condensed consolidated statements of income on a straight-line basis over the lease term. Lease and non-lease components are included in the calculation of the ROU asset and lease liabilities.

Our leases have remaining lease terms of 1 year to 36 years, some of which include one or more options to extend the leases for up to 25 years. Our lease term includes renewal terms when we are reasonably certain we will exercise the renewal options. We sublease certain leased assets to third parties, mainly as a result of unused space in our facilities.

Cohu, Inc.
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Supplemental balance sheet information related to leases was as follows:

<i>(in thousands)</i>	Classification	March 26, 2022	December 25, 2021
Assets			
Operating lease assets	Operating lease right-of-use assets	\$ 24,870	\$ 25,060
Finance lease assets	Property, plant and equipment, net ⁽¹⁾	390	423
Total lease assets		<u>\$ 25,260</u>	<u>\$ 25,483</u>
Liabilities			
Current			
Operating	Other accrued liabilities	\$ 4,962	\$ 4,886
Finance	Other accrued liabilities	143	167
Noncurrent			
Operating	Long-term lease liabilities	21,732	21,977
Finance	Long-term lease liabilities	50	63
Total lease liabilities		<u>\$ 26,887</u>	<u>\$ 27,093</u>
Weighted-average remaining lease term (years)			
Operating leases		6.7	6.9
Finance leases		1.6	1.8
Weighted-average discount rate			
Operating leases		6.2%	6.3%
Finance leases		0.9%	0.7%

(1) Finance lease assets are recorded net of accumulated amortization of \$0.2 million and \$0.1 million as of March 26, 2022 and December 25, 2021, respectively.

The components of lease expense were as follows:

<i>(in thousands)</i>	Three Months Ended	
	March 26, 2022	March 27, 2021
Operating leases	\$ 1,716	\$ 2,040
Variable lease expense	537	552
Short-term operating leases	1	33
Finance leases		
Amortization of leased assets	32	21
Sublease income	(20)	(19)
Net lease cost	<u>\$ 2,266</u>	<u>\$ 2,627</u>

Future minimum lease payments at March 26, 2022, are as follows:

<i>(in thousands)</i>	Operating leases ⁽¹⁾	Finance leases	Total
2022	\$ 4,866	\$ 121	\$ 4,987
2023	5,761	50	5,811
2024	5,302	11	5,313
2025	5,088	11	5,099
2026	2,765	3	2,768
Thereafter	9,729	-	9,729
Total lease payments	33,511	196	33,707
Less: Interest	(6,817)	(3)	(6,820)
Present value of lease liabilities	<u>\$ 26,694</u>	<u>\$ 193</u>	<u>\$ 26,887</u>

(1) Excludes sublease income of \$0.1 million in 2022.

Cohu, Inc.
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Supplemental cash flow information related to leases was as follows:

<i>(in thousands)</i>	Three Months Ended	
	March 26, 2022	March 27, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 1,703	\$ 1,943
Financing cash flows from finance leases	\$ 44	\$ 45
Leased assets obtained in exchange for new finance lease liabilities	\$ -	\$ 54
Leased assets obtained in exchange for new operating lease liabilities	\$ 1,169	\$ 2,350

12. Business Divestitures

PCB Test Equipment Business

On June 24, 2021, we completed the sale of our PCB Test Equipment (“PCB Test”) business, which represented our PCB Test reportable segment. As part of the transaction we also sold certain intellectual property held by our Semiconductor Test & Inspection segment that is utilized by the PCB Test business. Our decision to sell this non-core business resulted from management’s determination that that they were no longer a fit within our organization. We received gross proceeds of \$125.1 million, after completion of certain closing adjustments. The divestment generated a \$70.8 million pre-tax gain on sale of business, which was recorded in our condensed consolidated statements of income. As a result of the closing of the transaction, we derecognized net assets of \$48.2 million, including goodwill of \$21.9 million and intangible assets of \$14.8 million.

We evaluated the guidance in ASC 205-20, *Presentation of Financial Statements – Discontinued Operations*, and determined that the divestment of our PCB Test business does not represent a strategic shift as the divestiture will not have a major effect on Cohu’s operations and financial results and, as a result, it is not presented as discontinued operations in any periods presented. Subsequent to the sale of our PCB Test business, we have one reportable segment, Semiconductor Test & Inspection.

13. Contingencies

From time-to-time we are involved in various legal proceedings, examinations by various tax authorities and claims that have arisen in the ordinary course of our business. The outcome of any litigation is inherently uncertain. While there can be no assurance, we do not believe at the present time that the resolution of these matters will have a material adverse effect on our assets, financial position or results of operations.

14. Guarantees

Product Warranty

Our products are generally sold with warranty periods that range from 12 to 36 months following sale or acceptance. The product warranty promises customers that delivered products are as specified in the contract (an “assurance-type warranty”). Therefore, we account for such product warranties under ASC 460, and not as a separate performance obligation. Parts and labor are covered under the terms of the warranty agreement. The warranty provision is based on historical and projected experience by product and configuration.

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

	Three Months Ended	
	March 26, 2022	March 27, 2021
Balance at beginning of period	\$ 7,691	\$ 6,382
Warranty expense accruals	2,047	2,409
Warranty payments	(2,891)	(1,653)
Balance at end of period	<u>\$ 6,847</u>	<u>\$ 7,138</u>

Accrued warranty amounts expected to be incurred after one year are included in noncurrent other accrued liabilities in the condensed consolidated balance sheet. These amounts totaled \$0.9 million and \$1.1 million at March 26, 2022 and December 25, 2021, respectively.

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Management's Discussion and Analysis of Financial Condition and Results of Operations
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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 business and include, but are not limited to, statements concerning financial position, business strategy, our industry environment, market growth expectations, 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 2021 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. This Form 10-Q also contains estimates, projections and other information concerning our industry, our business, and the markets for certain of our products. Information that is based on estimates, forecasts, projections, market research or similar methodologies is inherently subject to uncertainties and actual events or circumstances may differ materially from events and circumstances reflected in this information. Unless otherwise expressly stated, we obtained this industry, business, market, and other data from reports, research surveys, studies, and similar data prepared by market research firms and other third parties, industry, and general publications, government data, and similar sources.

OVERVIEW

Cohu is a leading supplier of semiconductor test and inspection handlers, micro-electromechanical system (MEMS) test modules, test contactors and thermal subsystems, and semiconductor automated test equipment used by global semiconductor and electronics manufacturers and test subcontractors. We offer a wide range of products and services and our revenue from capital equipment products is driven by the capital expenditure budgets and spending patterns of our customers, who often abruptly delay or accelerate purchases in reaction to variations in their business. The level of capital expenditures by these companies depends on the current and anticipated market demand for semiconductor devices and the products that incorporate them. Our consumable products are driven by the number of semiconductor devices that are tested and by the continuous introduction of new products and new technologies by our customers. As a result, our consumable products provide a more stable recurring source of revenue and generally do not have the same degree of cyclicity as our capital equipment products.

On a year-over-year basis, our consolidated net sales decreased 12.3%, and on a quarter-over-quarter basis our consolidated net sales increased 3.1% to \$197.8 million in the first three months of fiscal 2022. During the first three months of 2022, although we continue to benefit from robust automotive demand, our net sales declined as a result of lower demand for mobility and 5G related products. Our 2021 net sales were favorably impacted by both robust automotive demand and continued mobility expansion with 5G proliferation with demand for equipment testing 5G, Wi-Fi 6 and Ultra-Wideband devices, data centers, personal computers and automotive semiconductor and sensors were at near record levels. Despite the decrease in net sales, based on the strength of current business conditions and our results we continued to take actions to reduce outstanding principal under our Term Loan Credit Facility making a \$7.0 million prepayment and we repurchased 213,706 shares of our common stock for approximately \$6.4 million during the first quarter of 2022.

Our long-term market drivers and market strategy remain intact and we are encouraged by demand across our main market segments, and customer traction with our new products. We remain optimistic about the long-term prospects for our business due to the increasing ubiquity of semiconductors, the continued rollout of 5G networks, increasing semiconductor complexity, increasing quality demands from semiconductor customers, increasing test intensity and continued proliferation of electronics in a variety of products across the automotive, mobility, industrial and consumer markets.

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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. COVID-19 remains a concern throughout the United States and other countries around the world, and the duration and severity of the effects are currently unknown. We base our estimates on historical experience, forecasts and on various other assumptions that are believed to be reasonable under the current 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 that 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 inventory reserves, which impact gross margin or operating expenses;
- the recognition and measurement of current and deferred income tax assets and liabilities, unrecognized tax benefits, the valuation allowance on deferred tax assets and accounting for the impact of the change to U.S. tax law as described herein, which impact our tax provision;
- the assessment of recoverability of long-lived and indefinite-lived assets including goodwill and other intangible assets, which primarily impacts gross margin or operating expenses if we are required to record impairments of assets or accelerate their depreciation; and
- the valuation and recognition of share-based compensation, which impacts gross margin, research and development expense, and selling, general and administrative expense.

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

Revenue Recognition: Our net sales are derived from the sale of products and services and are adjusted for estimated returns and allowances, which historically have been insignificant. We recognize revenue when the obligations under the terms of a contract with our customers are satisfied; generally, this occurs with the transfer of control of our systems, non-system products or services. In circumstances where control is not transferred until destination or acceptance, we defer revenue recognition until such events occur. Revenue for established products that have previously satisfied a customer's acceptance requirements is generally recognized upon shipment. In cases where a prior history of customer acceptance cannot be demonstrated or from sales where customer payment dates are not determinable and in the case of new products, revenue and cost of sales are deferred until customer acceptance has been received. Our post-shipment obligations typically include installation and standard warranties. The estimated fair value of installation related revenue is recognized in the period the installation is performed. Service revenue is recognized over time as the transfer of control is completed for the related contract or upon completion of the services if they are short-term in nature. Spares, contactor and kit revenue is generally recognized upon shipment. Certain of our equipment sales have multiple performance obligations. These arrangements involve the delivery or performance of multiple performance obligations, and transfer of control of performance obligations may occur at different points in time or over different periods of time. For arrangements containing multiple performance obligations, the revenue relating to the undelivered performance obligation is deferred using the relative standalone selling price method utilizing estimated sales prices until satisfaction of the deferred performance obligation. Unsatisfied performance obligations primarily represent contracts for products with future delivery dates. At March 26, 2022, we had \$7.6 million of revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) for contracts with original expected durations of over one year. As allowed under ASC 606, we have opted to not disclose unsatisfied performance obligations as these contracts have original expected durations of less than one year. We generally sell our equipment with a product warranty. The product warranty provides assurance to customers that delivered products are as specified in the contract (an "assurance-type warranty"). Therefore, we account for such product warranties under ASC 460, and not as a separate performance obligation. The transaction price reflects our expectations about the consideration we will be entitled to receive from the customer and may include fixed or variable amounts. Fixed consideration primarily includes sales to customers that are known as of the end of the reporting period. Variable consideration includes sales in which the amount of consideration that we will receive is unknown as of the end of a reporting period. Such consideration primarily includes sales made to certain customers with cumulative tier volume discounts offered. Variable consideration arrangements are rare; however, when they occur, we estimate variable consideration as the expected value to which we expect to be entitled. Included in the transaction price estimate are amounts in which it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The estimate is based on information available for projected future sales. Variable consideration that does not meet revenue recognition criteria is deferred. Accounts receivable represents our unconditional right to receive consideration from our customer. Payments terms do not exceed one year from the invoice date and therefore do not include a significant financing component. To date, there have been no material impairment losses on accounts receivable. There were no material contract assets or contract liabilities recorded on the condensed consolidated balance sheet in any of the periods presented. On shipments where sales are not recognized, gross profit is generally recorded as deferred profit in our condensed consolidated balance sheet representing the difference between the receivable recorded and the inventory shipped.

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Accounts Receivable: We maintain an allowance for credit losses 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. Our customers include semiconductor manufacturers and semiconductor test subcontractors throughout many areas of the world. While we believe that our allowance for credit losses is adequate and represents our best estimate of future losses we will continue to monitor customer liquidity and other economic conditions, including the impact of the COVID-19 pandemic, which may result in changes to our estimates.

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 net realizable value concerns equal to the difference between the cost of inventory and the estimated realizable 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 condensed 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 income. 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 deferred tax assets consist primarily of reserves and accruals that are not yet deductible for tax and tax credit and net operating loss carryforwards.

Segment Information: We applied the provisions of ASC Topic 280, *Segment Reporting*, ("ASC 280"), which sets forth a management approach to segment reporting and establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products, major customers and the geographies in which the entity holds material assets and reports revenue. An operating segment is defined as a component that engages in business activities whose operating results are reviewed by the chief operating decision maker and for which discrete financial information is available. We have determined that our three identified operating segments are: Test Handler Group ("THG"), Semiconductor Tester Group ("STG") and Interface Solutions Group ("ISG"). Our THG, STG and ISG operating segments qualify for aggregation under ASC 280 due to similarities in their customers, their economic characteristics, and the nature of products and services provided. As a result, we report in one segment, Semiconductor Test and Inspection Equipment ("Semiconductor Test & Inspection"). Prior to the sale of our PCB Test Group ("PTG") on June 24, 2021, we reported in two segments, Semiconductor Test & Inspection and PCB Test Equipment ("PCB Test").

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Goodwill, Other Intangible Assets and Long-lived Assets: We evaluate goodwill for impairment annually and when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting unit. 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 fair value of the reporting unit and its carrying value of goodwill. 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. Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and factors.

We conduct our annual impairment test as of October 1st of each year and determined that there was no impairment as of October 1, 2021, as the estimated fair values of our reporting units and indefinite-lived intangible assets exceeded their carrying values on that date. Other events and changes in circumstances may also require goodwill to be tested for impairment between annual measurement dates.

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.

During the first quarter of 2022, no events or conditions occurred suggesting an impairment in our goodwill, other intangible assets and long-lived assets.

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.

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 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. Share-based compensation on performance stock units with market-based goals is calculated using a Monte Carlo simulation model on the date of the grant. 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.

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Recent Accounting Pronouncements

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

RESULTS OF OPERATIONS*Recent Transactions Impacting Results of Operations*

On June 24, 2021, we completed the sale of our PCB Test Equipment ("PCB Test") business, which represented our PCB Test reportable segment. As part of the transaction we also sold certain intellectual property held by our Semiconductor Test & Inspection segment that is utilized by the PCB Test business. Our decision to sell this non-core business resulted from management's determination that that they were no longer a fit within our organization.

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

	Three Months Ended	
	March 26, 2022	March 27, 2021
Net sales	100.0%	100.0%
Cost of sales	(53.9)%	(54.7)%
Gross margin	46.1%	45.3%
Research and development	(11.7)%	(10.3)%
Selling, general and administrative	(15.8)%	(14.3)%
Amortization of purchased intangible assets	(4.3)%	(4.1)%
Restructuring charges	(0.3)%	(0.6)%
Loss on sale of PCB Test business	-%	(0.1)%
Income from operations	14.0%	15.9%

First Quarter of Fiscal 2022 Compared to First Quarter of Fiscal 2021*Net Sales*

Our consolidated net sales decreased 12.3% to \$197.8 million in 2022, compared to \$225.5 million in 2021. Although we continue to benefit from robust automotive demand driven by xEV and ADAS technologies, during the first three months of fiscal 2022 our net sales declined as a result of lower demand for mobility and 5G related products as compared to the corresponding period in fiscal 2021.

Gross Margin (exclusive of amortization of acquisition-related intangible assets described below)

Gross margin consists of net sales less cost of sales. Cost of sales consists primarily of materials, assembly and test labor and overhead from operations. Our gross margin can fluctuate due to a number of factors, including, but not limited to, the mix and volume of products sold, product support costs, material, labor, supplier, logistics and other operating cost increases, increases to inventory reserves or the sale of previously reserved inventory and utilization of manufacturing capacity. Our gross margin, as a percentage of net sales, was 46.1% in 2022 and 45.3% in 2021. During the first quarter of 2022, our gross margins improved compared to three months ended March 27, 2021, primarily as a result of favorable product mix.

Our gross margin can be impacted by charges to cost of sales related to excess, obsolete and lower of cost or net realizable value inventory issues. During the first quarter of 2022 and 2021, we recorded charges to cost of sales of \$0.8 million and \$0.7 million for excess and obsolete inventory, respectively.

While we believe our reserves for excess and obsolete inventory and lower of cost or net realizable value concerns are adequate to cover known exposures at March 26, 2022, 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.

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Research and Development Expense ("R&D Expense")

R&D expense consists primarily of salaries and related costs of employees engaged in ongoing research, product design and development activities, costs of engineering materials and supplies and professional consulting expenses. R&D expense was \$23.1 million in 2022 and \$23.2 million in 2021 representing 11.7% and 10.3% of net sales, respectively. R&D expense in first three months of 2022 increased over the prior year driven by higher labor and material costs associated with product development offset by a reduction in expense resulting from the divestment of our PCB Test business, which incurred \$0.8 million of R&D expense during the three months ended March 27, 2021.

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 \$31.2 million or 15.8% of net sales in 2022, compared to \$32.6 million or 14.3% in 2021. SG&A expense in the first three months of 2022 decreased due to the divestment of our PCB Test business and the elimination of costs associated with this business during the three months ended March 26, 2022 as compared to the prior year.

Amortization of Purchased Intangible Assets

Amortization of purchased intangibles is the process of expensing the cost of an intangible asset acquired through a business combination over the projected life of the asset. Amortization of acquisition-related intangible assets was \$8.5 million and \$9.2 million in the first quarter of 2022 and 2021, respectively. The decrease in expense recorded during the current year was a result of fluctuations in exchange rates and the sale of PCB Test business, as remaining purchased intangible assets that were being amortized were written-off as part of the sale.

Restructuring Charges

Subsequent to the acquisition of Xcerra on October 1, 2018, during the fourth quarter of 2018, we began a strategic restructuring program designed to reposition our organization and improve our cost structure as part of our targeted integration plan regarding Xcerra. In the first quarter of 2022 and 2021, we recorded restructuring charges totaling \$0.6 million and \$1.3 million, respectively.

See Note 4, "Restructuring Charges" in Part I, Item 1 of this Form 10-Q for additional information with respect to restructuring charges.

Interest Expense and Income

Interest expense was \$1.0 million in the first fiscal quarter of 2022 as compared to \$2.6 million in the corresponding period of 2021. The decrease in interest expense resulted from a reduction in the outstanding balance of our Term Loan Credit Facility and lower LIBOR rates.

Interest income was \$0.1 million in both the first fiscal quarter of 2022 and 2021, respectively.

Income Taxes

We used the estimated annual effective tax rate ("ETR") expected to be applicable for the full fiscal year in computing our tax provision. The ETR on income for the three months ended March 26, 2022 was 22.6% and reflects the impact of both new tax regulations and previously-enacted tax regulations now impacting the Company for the first time. New regulations impacting the tax provision include final regulations on foreign tax credits which limit the Company's ability to claim credits in certain jurisdictions. Previously enacted legislation now impacting the Company include the requirements to capitalize research expenditures and software development costs, and the Company now being subjected to base erosion and anti-abuse tax rules as we exceeded certain revenue thresholds. These impacts were offset by a partial release of our domestic valuation allowance on deferred tax assets to offset tax liabilities on current year earnings and excess benefits relating to stock-based compensation. The ETR on income for the three months ended March 27, 2021 was 11.5% which as not impacted by the aforementioned tax regulations, reflected a partial release of our domestic valuation allowance on deferred tax assets to offset tax liabilities on current year earnings and excess benefits relating to stock-based compensation.

We conduct business globally and, as a result, Cohu or one or more of its subsidiaries files income tax returns in the US and various state and foreign jurisdictions. In the normal course of business, we are subject to examinations by taxing authorities throughout the world and are currently under examination in Germany and Malaysia. We believe our financial statement accruals for income taxes are appropriate.

In accordance with the disclosure requirements as described in ASC Topic 740, *Income Taxes*, we have classified unrecognized tax benefits as non-current income tax liabilities, or a reduction in non-current deferred tax assets, unless expected to be paid within one year. Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. There were no material changes to our unrecognized tax benefits and interest accrued related to unrecognized tax benefits during the three months ended March 26, 2022 and March 27, 2021.

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Net Income

As a result of the factors set forth above, our net income was \$21.6 million and \$27.6 million for the three months ended March 26, 2022 and March 27, 2021, respectively.

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 seasonal 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 March 26, 2022, \$178.6 million or 66.9% 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 foreign withholding taxes if we repatriate these funds. Except for working capital requirements in certain jurisdictions, we provide for all withholding and other residual taxes related to unremitted earnings of our foreign subsidiaries.

At March 26, 2022, our total indebtedness, net of discount and deferred financing costs, was \$108.3 million, which included \$93.9 million outstanding under the Term Loan Credit Facility, \$2.8 million outstanding under Kita's term loans, \$9.5 million outstanding under Cohu GmbH's construction loan and \$2.0 million outstanding under Kita's lines of credit. In the first quarter of fiscal 2022, we prepaid \$7.0 million of our Term Loan Credit Facility and we repurchased 213,706 shares of our outstanding common stock, to be held as treasury stock, for \$6.4 million.

Liquidity

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

<i>(in thousands)</i>	March 26, 2022	December 25, 2021	Increase (Decrease)	Percentage Change
Cash, cash equivalents and short-term investments	\$ 358,570	\$ 379,905	\$ (21,335)	(5.6)%
Working capital	\$ 575,687	\$ 558,334	\$ 17,353	3.1%

Cash Flows

Operating Activities: Operating cash flows for the three months of fiscal 2022 consisted of our net income, adjusted for non-cash expenses and changes in operating assets and liabilities. These adjustments include depreciation expense on property, plant and equipment, share-based compensation expense, amortization of intangible assets, deferred income taxes, amortization of cloud-based software implementation costs, loss on extinguishment of debt, capitalized interest associated with cloud computing implementation, amortization of debt discounts and issuance costs and sales of property, plant and equipment. Our net cash provided by operating activities in the three months of fiscal 2022 totaled \$2.0 million. Net cash provided by operating activities was impacted by changes in current assets and liabilities and included increases in accounts receivable of \$19.9 million, customer advances of \$6.1 million, other current assets of \$5.7 million, income taxes payable of \$2.3 million, inventories of \$1.1 million and decreases in accrued compensation, warranty and other liabilities of \$15.1 million, and deferred profit of \$2.1 million. The increase in accounts receivable was due to the timing of cash collections on net sales recognized in the first quarter of 2022. The increase in customer advances represents cash received from customers in advance of product shipments that are expected to occur during 2022. Other current assets increased from advance payments for services that will be utilized throughout 2022. The increase in income taxes payable is driven by taxable income generated in the first quarter of 2022 and the increase in inventory was driven by purchases from suppliers made to fulfill anticipated future shipments of products. Accrued compensation, warranty and other liabilities decreased due to payments of incentive compensation related to the prior year during the first quarter of 2022 and the recognition of revenue that was previously deferred in accordance with our revenue recognition policy resulted in the decrease in deferred profit.

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Investing Activities: Investing cash flows consist primarily of cash used for capital expenditures in support of our business, purchases of investments, proceeds from investment maturities, business divestitures and asset disposals. Net cash used in investing activities in the three months of fiscal 2022 totaled \$4.8 million. In the three months of fiscal 2022 we used \$45.4 million of cash for purchases of short-term investments and generated \$43.3 million from sales and maturities. We invest our excess cash, in an attempt to seek the highest available return while preserving capital, in short-term investments since excess cash may be required for a business-related purpose. Additions to property, plant and equipment of \$2.7 million were made to support our operating and development activities.

Financing Activities: Financing cash flows consist primarily of net proceeds from the issuance of common stock under our stock option and employee stock purchase plans, repurchases of shares made under our share repurchase program and repayments of debt, net of new borrowings. We issue restricted stock units and stock options and maintain an employee stock purchase plan as components of our overall employee compensation. In the three months of fiscal 2022, cash used to settle the minimum statutory tax withholding requirements on behalf of our employees upon vesting of restricted and performance stock awards, net of proceeds from the exercise of employee stock options was \$4.1 million. We made payments totaling \$5.9 million in the first three months of 2022 for shares of our common stock repurchased under our share repurchase program to be held as treasury stock. Repayments of short-term borrowings and long-term debt during the three months of fiscal 2022 totaled \$9.1 million.

Share Repurchase Program

On October 28, 2021, we announced that our Board of Directors authorized a \$70 million share repurchase program. This share repurchase program was effective as of November 2, 2021, and has no expiration date, and the timing of share repurchases and the number of shares of common stock to be repurchased will depend upon prevailing market conditions and other factors. Repurchases under this program will be made using our existing cash resources and may be commenced or suspended from time-to-time at our discretion without prior notice. Repurchases may be made in the open market, through 10b5-1 programs, or in privately negotiated transactions at prevailing market rates in accordance with federal securities laws. For the three months ended March 26, 2022, we repurchased 213,706 shares of our common stock for \$6.4 million to be held as treasury stock with \$5.9 million paid during the quarter and \$0.5 million in accrued liabilities as the settlement occurred in the subsequent quarter. As of March 26, 2022, \$56.3 million of shares of our common stock remains available for us to repurchase under our share repurchase program.

Capital Resources

We have access to credit facilities and other borrowings provided by financial institutions to finance acquisitions, capital expenditures and our operations if needed. A summary of our borrowings and available credit is as follows.

Credit Agreement

On October 1, 2018, we entered into a Credit Agreement providing for a \$350.0 million Term Loan Credit Facility and borrowed the full amount to finance a portion of the Xcerra acquisition. Loans under the Term Loan Credit Facility amortize in equal quarterly installments of 0.25% of the original principal amount, with the balance payable at maturity. All outstanding principal and interest in respect of the Term Loan Credit Facility must be repaid on or before October 1, 2025. The loans under the Term Loan Credit Facility bear interest, at Cohu's option, at a floating annual rate equal to LIBOR plus a margin of 3.00%. At March 26, 2022, the outstanding loan balance, net of discount and deferred financing costs, was \$93.9 million and \$3.1 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 25, 2021, the outstanding loan balance, net of discount and deferred financing costs, was \$101.6 million and \$10.1 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets.

Under the terms of the Credit Agreement, the lender may accelerate the payment terms upon the occurrence of certain events of default set forth therein, which include: the failure of Cohu to make timely payments of amounts due under the Credit Agreement, the failure of Cohu to adhere to the representations and covenants set forth in the Credit Agreement, the failure to provide notice of any event that causes a material adverse effect or to provide other required notices, upon the event that related collateral agreements become ineffective, upon the event that certain legal judgments are entered against Cohu, the insolvency of Cohu, or upon the change of control of Cohu. As of March 26, 2022, we believe no such events of default have occurred.

During the first three months of 2022, we prepaid \$7.0 million in principal of our Term Loan Credit Facility for \$7.0 million in cash. We accounted for the prepayment as a debt extinguishment, which resulted in a loss of \$0.1 million reflected in other expense, net, in our condensed consolidated statement of income and a corresponding \$0.1 million reduction in debt discounts and deferred financing costs in our condensed consolidated balance sheets. During 2021, we prepaid \$200.0 million in principal of our Term Loan Credit Facility for \$200.0 million in cash. We accounted for the prepayment as a debt extinguishment, which resulted in a loss of \$3.4 million reflected in other expense, net, in our condensed consolidated statement of income and a corresponding \$3.4 million reduction in debt discounts and deferred financing costs in our condensed consolidated balance sheets. Approximately \$95.3 million in principal of the Term Loan Credit Facility remained outstanding as of March 26, 2022.

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Kita Term Loans

We have a series of term loans with Japanese financial institutions primarily related to the expansion of our facility in Osaka, Japan. The loans are collateralized by the facility and land, carry interest rates ranging from 0.05% to 0.43%, and expire at various dates through 2034. At March 26, 2022, the outstanding loan balance was \$2.8 million and \$0.2 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 25, 2021, the outstanding loan balance was \$3.1 million and \$0.2 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. The term loans are denominated in Japanese Yen and, as a result, amounts disclosed herein will fluctuate because of changes in currency exchange rates.

Construction Loans

In July 2019 and June 2020, one of our wholly owned subsidiaries located in Germany entered into a series of construction loans ("Loan Facilities") with a German financial institution providing it with total borrowings of up to €10.1 million. The Loan Facilities were utilized to finance the expansion of our facility in Kolbermoor, Germany and are secured by the land and the existing building on the site. The Loan Facilities bear interest at agreed upon rates based on the facility amounts as discussed below.

The first facility totaling €3.4 million has been fully drawn and is payable over 10 years at a fixed annual interest rate of 0.8%. Principal and interest payments are due each quarter over the duration of the facility ending in September 2029. The second facility totaling €5.2 million has been fully drawn and is payable over 15 years at an annual interest rate of 1.05%, which is fixed until April 2027. Principal and interest payments are due each month over the duration of the facility ending in January 2034. The third facility totaling €1.5 million, of which €0.9 million is drawn, is payable over 10 years at an annual interest rate of 1.2%. Principal and interest payments are due each month over the duration of the facility ending in May 2030.

At March 26, 2022, total outstanding borrowings under the Loan Facilities was \$9.5 million with \$1.0 million of the total outstanding balance being presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 25, 2021, total outstanding borrowings under the Loan Facilities was \$10.0 million with \$1.0 million of the total outstanding balance being presented as current installments of long-term debt in our condensed consolidated balance sheets. The loans are denominated in Euros and, as a result, amounts disclosed herein will fluctuate because of changes in currency exchange rates. The fair value of the debt approximates the carrying value at March 26, 2022.

Lines of Credit

As a result of our acquisition of Kita, we assumed a series of revolving credit facilities with various financial institutions in Japan. The credit facilities renew monthly and provide access to working capital totaling up to 960 million Japanese Yen of which 250 million Japanese Yen is drawn. At March 26, 2022, total borrowings outstanding under the revolving lines of credit were \$2.0 million. As these credit facility agreements renew monthly, they have been included in short-term borrowings in our condensed consolidated balance sheets.

The revolving lines of credit are denominated in Japanese Yen and, as a result, amounts disclosed herein will fluctuate because of changes in currency exchange rates.

Our wholly owned subsidiary in Switzerland has one available line of credit which provides borrowings of up to a total of 2.0 million Swiss Francs, a portion of which is reserved for tax guarantees. At March 26, 2022 and December 25, 2021, no amounts were outstanding under this line of credit.

We also have a letter of credit facility ("LC Facility") under which Bank of America, N.A., has agreed to administer the issuance of letters of credit on our behalf. The LC Facility requires us to maintain deposits of cash or other approved investments in amounts that approximate our outstanding letters of credit and contains customary restrictive covenants. In addition, our wholly owned subsidiary, Xcerra, has arrangements with various financial institutions for the issuance of letters of credit and bank guarantees. As of March 26, 2022, \$0.3 million was outstanding under standby letters of credit and bank guarantees.

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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 liabilities for debt, operating leases, unrecognized tax benefits, pensions, post-retirement benefits and warranties. During the first three months of 2022, we prepaid \$7.0 million in outstanding principal of our Term Loan Credit Facility. Aside from the repayment of outstanding principal of our Term Loan Credit Facility, there were no material changes to these obligations outside the ordinary course of business from those disclosed in our Annual Report on Form 10-K for the year ended December 25, 2021.

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

Off-Balance Sheet Arrangements: During the ordinary course of business, we provide standby letters of credit instruments to certain parties as required. As of March 26, 2022, \$0.3 million was outstanding under standby letters of credit.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.**Investment and Interest Rate Risk.**

At March 26, 2022, our investment portfolio included short-term fixed-income investment securities with a fair value of approximately \$91.5 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 credit-related. 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 March 26, 2022, the cost and fair value of investments we held with loss positions were approximately \$85.0 million. We evaluated the nature of these investments, credit worthiness of the issuer and the duration of these impairments to determine if an other-than-temporary decline in fair value had occurred and concluded that these losses were temporary and we have the ability and intent to hold these investments to maturity.

Our long-term debt is carried at amortized cost and immaterial fluctuations in interest rates do not impact our consolidated financial statements. However, the fair value of our debt will generally fluctuate with movements of interest rates, increasing in periods of declining rates of interest and declining in periods of increasing rates of interest. As of March 26, 2022, we have approximately \$93.9 million of long-term debt under a Term Loan Credit Facility that is subject to quarterly interest payments that are based on either a base rate plus a margin of up to 2.0% per annum, or the London Interbank Offered Rate (LIBOR) plus a margin of up to 3.0% per annum. The selection of the interest rate formula is at our discretion. The interest rate otherwise payable under the Term Loan Credit Facility will be subject to increase by 2.0% per annum during the continuance of a payment default and may be subject to increase by 2.0% per annum with respect to the overdue principal amount of any loans outstanding and overdue interest payments and other overdue fees and amounts. At March 26, 2022, the interest rate in effect on these borrowings was 3.5%. In July 2017, the UK's Financial Conduct Authority ("FCA"), which regulates the LIBOR, announced that it intended to phase out LIBOR by the end of 2021. In March 2021, the FCA announced an extension of the phase out in the case of U.S. dollar settings for certain tenors until the end of June 2023. Various central bank committees and working groups continue to discuss replacement of benchmark rates, the process for amending existing LIBOR-based contracts, and the potential economic impacts of different alternatives. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2023. While the U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, has chosen the secured overnight financing rate (SOFR) as the recommended risk-free reference rate for the U.S., we cannot currently predict the extent to which this index will gain widespread acceptance as a replacement for LIBOR. We cannot currently predict the effect of the discontinuation of, or other changes to, LIBOR or any establishment of alternative reference rates in the United States, the European Union or elsewhere on the global capital markets. The uncertainty regarding the future of LIBOR, as well as the transition from LIBOR to any alternative reference rate or rates, could have adverse impacts on floating rate obligations, loans, deposits, derivatives and other financial instruments that currently use LIBOR as a benchmark rate. Our Term Loan Credit Facility constitutes our most significant exposure to this transition and there is no guarantee that a shift from LIBOR to a new reference rate will not result in increases to our borrowing costs.

Foreign Currency Exchange Risk.

We have operations in several foreign countries and conduct business in the local currency in these countries. As a result, we have risk associated with currency fluctuations as the value of foreign currencies fluctuate against the U.S. dollar, in particular the Swiss Franc, Euro, Malaysian Ringgit, Chinese Yuan, Philippine Peso and Japanese Yen. These fluctuations can impact our reported earnings.

During the fourth quarter of 2020, we began entering into foreign currency forward contracts with a financial institution to offset future movements in foreign exchange rates that affect certain existing U.S. Dollar denominated assets and liabilities held at our subsidiaries whose functional currency is the local currency. Under this program, our strategy is to have increases or decreases in our foreign currency exposures mitigated by gains or losses on the foreign currency forward contracts in order to mitigate the risks and volatility associated with foreign currency transaction gains or losses.

Fluctuations in currency exchange rates also impact the U.S. Dollar amount of our net investment in foreign operations. The assets and liabilities of our foreign subsidiaries are translated into U.S. Dollars at the exchange rates in effect at the balance sheet date. Income and expense accounts are translated at an average exchange rate during the period which approximates the rates in effect at the transaction dates. The resulting translation adjustments are recorded in stockholders' equity as a component of accumulated other comprehensive loss. As a result of fluctuations in certain foreign currency exchange rates in relation to the U.S. Dollar as of March 26, 2022, compared to December 25, 2021, our stockholders' equity increased by \$8.9 million.

Based upon the current levels of net foreign assets, a hypothetical 10% devaluation of the U.S. Dollar as compared to these currencies as of March 26, 2022 would result in an approximate \$31.9 million positive translation adjustment recorded in other comprehensive income within stockholders' equity. Conversely, a hypothetical 10% appreciation of the U.S. Dollar as compared to these currencies as of March 26, 2022 would result in an approximate \$31.9 million negative translation adjustment recorded in other comprehensive income within stockholders' equity.

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 Control over Financial Reporting. During the three months ended March 26, 2022, we did not make any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth above under Note 13 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 most significant risk factors applicable to Cohu are described in Part I, Item 1A (Risk Factors) of Cohu's Annual Report on Form 10-K for the fiscal year ended December 25, 2021 (our "2021 Form 10-K"). There have been no material changes to the risk factors previously disclosed in our 2021 Form 10-K, except that we have updated the risk factors set forth below to reflect events occurring since the filing of our 2021 Form 10-K.

Risks Associated with Operating a Global Business

Political instability resulting from the military incursion into Ukraine by Russia has caused significant disruption to foreign and domestic economies, leading to broad and significant economic sanctions against Russia with an immediate impact to material and commodity prices while raising sustained global uncertainty.

The rising tensions related to Russia's actions have resulted in the United States and many European countries imposing significant economic sanctions on Russia and specific individuals targeted as having connections to the Russian government. The totality of these actions has resulted in immediate changes to, and friction within, international trade relationships, likely resulting in continued increases in the cost of materials, and immediately higher oil and other commodity prices have already resulted in further increased shipping and transportation costs. An increase in the cost, or shortage, of certain materials may also result in supply issues for critical materials that could constrain manufacturing levels for Cohu's customers, leading to a decrease in demand for Cohu's products.

The global impact of the military action and subsequent imposing of sanctions continues to evolve and cannot be sufficiently measured or predicted with certainty. Government entities and both public and private companies within the United States could be exposed to attempted or actual cybersecurity attacks launched in retaliation, resulting in disruptions to domestic markets and a prolonged state of global market volatility. Furthermore, there is uncertainty with respect to China's willingness to support ongoing or expanded sanctions, that could distance China from its existing trade partners, potentially creating a significant impact to the semiconductor chip and equipment industries that conduct operations within China, Taiwan and the region. There is a likelihood that these sanctions, and related geopolitical tensions, will not be resolved in the short-term but will have a lengthy disruption to all global companies.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities during the period covered by this report.

Issuer Purchases of Equity Securities

On October 28, 2021, we announced that our Board of Directors authorized a \$70 million share repurchase program. This share repurchase program was effective as of November 2, 2021 and has no expiration date, and the timing of share repurchases and the number of shares of common stock to be repurchased will depend upon prevailing market conditions and other factors. Repurchases under this program will be made using our existing cash resources and may be commenced or suspended from time-to-time at our discretion without prior notice. Repurchases may be made in the open market, through 10b5-1 programs, or in privately negotiated transactions at prevailing market rates in accordance with federal securities laws. All such repurchased shares and related costs are held as treasury stock and accounted for at trade date using the cost method. The total number of shares of common stock we purchased during the three months ended March 26, 2022 was 213,706 shares of our common stock for \$6.4 million to be held as treasury stock with \$5.9 million paid during the quarter and \$0.5 million in accrued liabilities as the settlement occurred in the subsequent quarter. As of March 26, 2022, \$56.3 million of shares of our common stock remains available for us to repurchase under our share repurchase program

Share repurchase activity during the first quarter of 2022 was as follows:

	Total Number of Shares Purchased	Weighted Average Price Paid Per Share ⁽¹⁾	Total Purchase Cost ⁽²⁾	Total Number of Shares Purchased as Part of Publicly Announced Programs ⁽³⁾	Maximum \$ Value of Shares That May Yet Be Purchased Under The Programs ⁽³⁾
<i>(In thousands except price per share amounts)</i>					
Jan 23 - Feb 19, 2022	15	\$ 32.34	\$ 485	15	\$ 62,190
Feb 20 - Mar 26, 2022	199	\$ 29.68	\$ 5,902	199	\$ 56,288
	<u>214</u>	\$ 29.87	<u>\$ 6,387</u>	<u>214</u>	

- (1) The weighted average price paid per share of common stock does not include the cost of commissions.
- (2) The total purchase cost includes the cost of commissions.
- (3) On October 28, 2021, we announced that our Board of Directors authorized a \$70 million share repurchase program. This share repurchase program is effective as of November 2, 2021 and has no expiration date, and the timing of share repurchases and the number of shares of common stock to be repurchased will depend upon prevailing market conditions and other factors. Repurchases under this program will be made using our existing cash resources and may be commenced or suspended from time-to-time at our discretion without prior notice. Repurchases may be made in the open market, through 10b5-1 programs, or in privately negotiated transactions at prevailing market rates in accordance with federal securities laws. All such repurchased shares and related costs are held as treasury stock and accounted for at trade date using the cost method.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None.

Item 6.	Exhibits.
10.1	Severance Agreement, dated September 8, 2020, between the Company and Ian Lawee *
10.2	Change in Control Agreement, dated September 8, 2020, between the Company and Ian Lawee *
31.1	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Management contract or compensatory plan or arrangement

SIGNATURES

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

COHU, INC.

(Registrant)

Date: April 29, 2022

/s/ Luis A. Müller

Luis A. Müller

President & Chief Executive Officer

Date: April 29, 2022

/s/ Jeffrey D. Jones

Jeffrey D. Jones

Senior Vice President, Finance & Chief Financial Officer

(Principal Financial & Accounting Officer)

COHU, INC.
SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT (the “**Agreement**”) is made and entered into as of September 8, 2020, by and between Ian Lawee (“**Executive**”) and Cohu, Inc., a Delaware corporation (the “**Company**”).

WHEREAS, although the Company anticipates the continuation of a mutually rewarding employment relationship with Executive, the Compensation Committee (the “**Committee**”) of the Board of Directors of the Company (the “**Board**”) believes that it is in the best interests of the Company and its stockholders to provide Executive with certain assurances in the event of the occurrence of a Qualifying Termination of Executive’s employment with the Company;

WHEREAS, the Committee anticipates that such assurances will provide Executive with an incentive to continue employment and to motivate Executive to maximize the value of the Company for the benefit of its stockholders; and

WHEREAS, certain capitalized terms used in this Agreement are defined in **Section 3.7** below;

NOW, THEREFORE, in consideration of the mutual covenants, promises and obligations set forth herein, the parties agree as follows:

1. **TERM.**

This Agreement shall have a term commencing as of September 8, 2020 (the “**Effective Date**”) and continuing until the third (3rd) anniversary thereof (the “**Initial Term**”). The Initial Term shall be automatically extended for successive two (2) year periods (each a “**Renewal Term**” and, together with the Initial Term and each such Renewal Term, the “**Term**”), unless either party has delivered written notice to the other party no later than six (6) months prior to the completion of the then effective Term that this Agreement will not be extended. For the avoidance of doubt, neither the lapse of this Agreement by its terms nor non-renewal of this Agreement will by itself constitute termination of employment. Notwithstanding anything herein to the contrary, if, during the then effective Term, Executive’s employment with the Company has terminated as a result of a Qualifying Termination, this Agreement shall not terminate until all payments and benefits, if any, have been provided to Executive in accordance with this Agreement.

2. AT-WILL EMPLOYMENT.

Executive acknowledges and agrees that nothing in this Agreement shall be construed to imply that Executive's employment is guaranteed for any period of time. Unless stated in a written agreement authorized by the Committee or the Board and signed by an officer of the Company and Executive, Executive's employment is at-will, and either the Company or Executive may terminate the employment relationship at any time with or without cause and with or without notice.

3. TERMINATION OF EMPLOYMENT.

3.1 **Qualifying Termination.** In the event of Executive's Qualifying Termination, Executive shall be entitled to receive the Accrued Amounts. In addition, provided that Executive complies with the provisions of **Section 5** and executes a full general release of all claims, known or unknown, that Executive may have against the Company, its affiliates and their respective officers and directors in a form provided by the Company (the "**Release**") which becomes effective and irrevocable within sixty (60) days following the Termination Date (such 60-day period, the "**Release Execution Period**"), Executive shall be entitled to receive the following severance payments and benefits:

(a) **Base Salary Severance Benefit.** An amount equal to **100%** of Executive's Base Salary shall be paid in cash in a single lump sum on the next regular payroll date following the expiration of the Release Execution Period (but in no event later than the lapsing of the Short-Term Deferral Period).

(b) **Health Care Benefit.** Payment by the Company of the premiums required to continue Executive's group health care coverage for the same level of health coverage and benefits as in effect for Executive on the day immediately preceding the Termination Date for a period of twelve (12) months following the Termination Date (the "**Premium Payment Period**") under the applicable provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**"), provided that Executive elects to continue and remains eligible for these benefits under COBRA and does not become eligible for health coverage through another employer during this period. Notwithstanding the foregoing, if the Company determines, in its reasonable discretion, that the payment of the premiums would result in a violation of the nondiscrimination rules of Section 105(h)(2) of the Internal Revenue Code of 1986, as amended (the "**Code**") or any statute or regulation of similar effect (including but not limited to the 2010 Patient Protection and Affordable Care Act, as amended by the 2010 Health Care and Education Reconciliation Act), then, in lieu of paying such premiums, the Company, in its sole discretion, may elect to instead pay Executive on the first day of each month during the Premium Payment Period, a fully taxable cash payment (the "**Special Separation Payment**") equal to the premiums for that month, grossed up to cover all applicable withholdings, so that the net benefit to Executive equals the monthly premiums, for the remainder of the Premium Payment Period. The Special Separation Payments will cease should Executive elect to cease, or become ineligible for, continued health care coverage under COBRA.

(c) **Equity Award Treatment.** The treatment of any outstanding equity award held by Executive shall be determined in accordance with the terms of the applicable equity incentive plan and the applicable equity award agreement.

3.2 **Non-Qualifying Termination.** In the event of Executive's Non-Qualifying Termination, Executive shall be entitled to receive only the Accrued Amounts. However, in the event that Executive's employment terminates due to Executive's death, and subject to execution by Executive's personal representative on behalf of Executive's estate of a Release which becomes effective and irrevocable during the Release Execution Period, the Company shall pay to the Executive's estate a Prorated Bonus for the year in which the Executive dies in a single lump sum as soon as reasonably practicable following the expiration of the Release Execution Period (but in no event later than the lapsing of the Short-Term Deferral Period).

3.3 **Notice of Termination.** Any termination of Executive's employment hereunder by the Company or by Executive during the Term (other than termination on account of Executive's death) shall be communicated by written notice of termination ("**Notice of Termination**") to the other party hereto in accordance with **Section 10.7**. The Notice of Termination shall specify:

- (a) the facts and circumstances claimed to provide a basis for termination of Executive's employment; and
- (b) the applicable Termination Date.

3.4 **Resignation of All Other Positions.** The termination of Executive's employment for any reason will be deemed to constitute, without further required action by Executive, voluntary resignation by Executive, effective on the Termination Date, from all positions that Executive holds as an officer or member of the board of directors (or a committee thereof) of the Company or any of its affiliates. At the Board's request, Executive will execute any documents reasonably necessary to reflect such resignation.

3.5 **Mitigation.** In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement and, except as provided in **Section 3.1(b)** (providing for health care continuation benefits under COBRA), any amounts payable pursuant to this **Section 3** shall not be reduced by compensation Executive earns on account of employment with another employer.

3.6 **Section 280G.**

(a) If any payments and other benefits provided for in this Agreement or otherwise (collectively, the “**Payments**”) would, either separately or in the aggregate, constitute “parachute payments” within the meaning of Section 280G of the Code and, but for this **Section 3.6**, would be subject to the excise tax imposed by Section 4999 of the Code, then the Payments will be payable to Executive either in full or in such lesser amounts as would result, after taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, in Executive’s receipt on an after-tax basis of the greatest amount of Payments. If a reduction in Payments is required pursuant to this **Section 3.6**, Payments shall be reduced in the following order: (i) reduction or elimination of cash severance benefits that are subject to Section 409A of the Code; (ii) reduction or elimination of cash severance benefits that are not subject to Section 409A of the Code; (iii) cancellation or reduction of accelerated vesting of equity awards that are not stock options or stock appreciation rights; (iv) cancellation or reduction of accelerated vesting of stock options and stock appreciation rights; and (v) reduction or elimination of other Payments. Any reduction of cash severance benefits or other cash Payments shall be made in reverse chronological order such that the cash payment owed on the latest date following the occurrence of the event triggering such excise tax will be the first cash payment to be reduced. Any reduction of accelerated vesting of equity award compensation shall be made in the reverse order of the date of grant so that the accelerated vesting of the most recently granted equity award will be reduced first. In no event shall Executive have any discretion with respect to the ordering of payment or benefits reductions. Executive will be solely responsible for the payment of all personal tax liability incurred as a result of the payments and benefits received under this Agreement, and Executive will not be reimbursed by the Company for any such tax liability.

(b) All calculations and determinations under this **Section 3.6** shall be made by an independent accounting firm or independent tax counsel appointed by the Company (the “**Tax Counsel**”) whose determinations shall be conclusive and binding on the Company and Executive for all purposes. For purposes of making the calculations and determinations required by this **Section 3.6**, the Tax Counsel may rely on reasonable, good faith assumptions and approximations concerning the application of Section 280G and Section 4999 of the Code. The Company and Executive shall furnish the Tax Counsel with such information and documents as the Tax Counsel may reasonably request in order to make its determinations under this **Section 3.6**. The Company shall bear all costs the Tax Counsel may reasonably incur in connection with its services hereunder. The Company will have no liability to Executive for the determinations of the Tax Counsel.

3.7 **Definitions of Certain Terms.** Certain capitalized terms not otherwise defined by this Agreement shall have the following meanings:

(a) “**Accrued Amounts**” mean, collectively:

- (i) any accrued but unpaid Base Salary prorated to the Termination Date and accrued but unused vacation, both of which shall be paid on the Termination Date in accordance with the Company’s customary payroll procedures;

- (ii) reimbursement of unreimbursed business expenses properly incurred by Executive, which shall be subject to, and paid in accordance with, the Company's expense reimbursement policy; and
 - (iii) such employee benefits (including equity compensation), if any, to which Executive may be entitled under the Company's employee benefit plans as of the Termination Date.
- (b) "**Base Salary**" means Executive's annual base salary at the rate in effect immediately prior to the Termination Date.
- (c) "**Cause**" means:
- (i) Executive's willful and continued failure to perform the duties and responsibilities of his/her position (other than as a result of Executive's illness or injury) after there has been delivered to Executive a written demand for performance from the Chief Executive Officer which describes the basis for the Chief Executive Officer's belief that Executive has not substantially performed his/her duties and provides Executive with thirty (30) days to take corrective action;
 - (ii) Any material act of personal dishonesty taken by Executive in connection with his/her responsibilities as an employee of the Company with the intention that such action may result in the substantial personal enrichment of Executive;
 - (iii) Executive's conviction of, or plea of *nolo contendere* to, a felony that the Board reasonably believes has had or will have a material detrimental effect on the Company's reputation or business;
 - (iv) A willful breach of any fiduciary duty owed to the Company by Executive that the Board reasonably believes has had, or will have, a material detrimental effect on the Company's reputation or business;
 - (v) Executive being found liable in any Securities and Exchange Commission or other civil or criminal securities law action (regardless of whether or not Executive admits or denies liability), which the Board determines, in its reasonable discretion, has had, or will have, a material detrimental effect on the Company's reputation or business;

- (vi) Executive entering any cease and desist order with respect to any action which would bar Executive from service as an executive officer or member of a board of directors of any publicly-traded company (regardless of whether or not Executive admits or denies liability);
- (vii) Executive (A) obstructing or impeding; (B) endeavoring to obstruct or impede, or (C) failing to materially cooperate with, any investigation authorized by the Board or any governmental or self-regulatory entity. However, Executive's failure to waive attorney-client privilege relating to communications with Executive's own attorney in connection with any such investigation will not constitute "Cause";
- (viii) Executive's disqualification or bar by any governmental or self-regulatory authority from serving in the capacity in which Executive is then employed by the Company, if (A) the disqualification or bar continues for more than thirty (30) days, and (B) during the initial thirty (30) day period ("**Initial Bar Period**") the Company uses its commercially reasonable efforts to cause the disqualification or bar to be lifted. During the Initial Bar Period, the Board may have Executive serve in his/her then-current capacity with the Company to whatever extent legally permissible or Executive will be placed on paid administrative leave, at the discretion of the Board. If the bar is not lifted within or immediately following the Initial Bar Period, Executive's employment shall terminate for Cause;
- (ix) any material failure by Executive to comply with the Company's written policies or rules, as they may be in effect from time to time during the Term, if such failure has caused, or will cause, material reputational or financial harm to the Company; or
- (x) Executive's material breach of this Agreement or the Company's Confidentiality and Inventions Agreement.

For purposes of this provision, no act or failure to act on the part of Executive shall be considered "willful" unless it is done, or omitted to be done, by Executive in bad faith or without reasonable belief that Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by Executive in good faith and in the best interests of the Company.

(d) “**Change in Control Agreement**” means the Change in Control Agreement between Executive and the Company, dated as of September 8, 2020 and as amended from time to time.

(e) **Reserved.**

(f) “**Non-Qualifying Termination**” means any termination of Executive’s employment with the Company which is not a Qualifying Termination.

(g) “**Notice Period**” means a period of thirty (30) days commencing on the date of delivery of a Notice of Termination.

(h) “**Prorated Bonus**” means an amount equal to a prorated portion of Executive’s Target Bonus for the fiscal year in which the date of Executive’s death occurs. Such prorated portion shall be determined by multiplying the foregoing Target Bonus by a fraction, the numerator of which is equal to the number of days between the start of such fiscal year and the date of Executive’s death and the denominator of which is equal to 365. The actual annual incentive bonus for the fiscal year of Executive’s termination of employment due to death shall be forfeited, and Executive’s estate shall not be entitled to any payment thereof.

(i) “**Qualifying Termination**” means termination by the Company of Executive’s employment with the Company for any reason other than Cause; provided, however that a Qualifying Termination shall not include any termination of Executive’s employment on account of Executive’s death or disability.

(j) “**Severance Benefit Period**” means a period of twelve (12) months following the Termination Date.

(k) “**Short-Term Deferral Period**” means a period determined in accordance with Treasury Regulation Section 1.409A-1(b)(4) beginning on the Termination Date with respect to a Qualifying Termination of Executive and ending on the 15th day of the third month following the later of (i) the last day of the calendar year or (ii) the last day of the Company’s taxable year in which, in either case, the Termination Date occurs.

(l) “**Target Bonus**” means the target amount of Executive’s annual incentive bonus, assuming achievement of all Company performance goals and individual performance goals at their target levels in accordance with the Company’s annual bonus plan and as established by the Committee.

(m) “**Termination Date**” means:

- (i) if the Company terminates Executive’s employment without Cause, the date specified in the Notice of Termination, which shall be the day immediately following completion of the Notice Period commencing on the date on which the Notice of Termination is delivered to Executive; provided that the Company shall have the option to relieve Executive of all job duties, positions and responsibilities for all or any part of the Notice Period and provide Executive with payment of Executive’s then current Base Salary in lieu of any portion of the Notice Period for which Executive is so relieved of duty, which amount shall be paid in a lump sum on Executive’s Termination Date, and, in such case, for all purposes of this Agreement, Executive’s Termination Date shall be the date on which such Notice of Termination is delivered; and
- (ii) if Executive terminates his/her employment, the date specified in Executive’s Notice of Termination, which shall be the day immediately following completion of the Notice Period commencing on the date on which the Notice of Termination is delivered to the Company; provided that the Company may waive all or any part of the Notice Period by giving written notice of such waiver to Executive and paying Executive’s then current Base Salary in lieu of the portion of the Notice Period waived, which amount shall be paid in a lump sum on Executive’s Termination Date, and, in such case, for all purposes of this Agreement, Executive’s Termination Date shall be the date determined by the Company.

Notwithstanding anything contained herein to the contrary, the Termination Date shall not occur until the date on which Executive incurs a “separation from service” within the meaning of Section 409A of the Code.

4. **EXCLUSIVE REMEDY.**

Except for any additional payments and benefits pursuant to the Change in Control Agreement, the provisions of **Section 3** of this Agreement are intended to be and are exclusive and in lieu of any other rights or remedies to which Executive may otherwise be entitled in the event of Executive’s Qualifying Termination. In such circumstances, Executive shall be entitled to no benefits, compensation or other payments or rights upon termination of employment other than those benefits expressly set forth in **Section 3.1**. For the avoidance of doubt, in the event Executive becomes entitled to receive benefits under the Change in Control Agreement, if applicable, that agreement shall govern, and Executive shall be paid benefits solely under that agreement and in lieu of any benefits under this Agreement.

5. **CONDITIONS TO RECEIPT OF SEVERANCE BENEFITS.**

In addition to Executive's Release becoming effective and irrevocable no later than the expiration of the Release Execution Period, Executive's entitlement to the severance payments and benefits set forth in **Section 3.1** shall be subject to Executive's compliance with all of the following:

5.1 **Confidentiality and Proprietary Rights.** Executive is party to a certain Confidentiality and Inventions Agreement dated March 16, 2019. Executive shall continue to abide by his/her obligations under the Confidentiality and Inventions Agreement, which is attached as **Exhibit A** hereto and incorporated herein by reference.

5.2 **Non-Solicitation of Employees.** Executive agrees that during the Severance Benefit Period, Executive will not, either directly or indirectly, separately or in association with others, interfere with, impair, disrupt or damage Company's business by soliciting, encouraging or recruiting any of Company's employees or causing others to solicit or encourage any of Company's employees to discontinue their employment with Company.

5.3 **Non-Disparagement.** Executive agrees and covenants that Executive will not at any time during the Severance Benefit Period make, publish or communicate to any person or entity or in any public forum any defamatory or disparaging remarks, comments or statements concerning the Company or its businesses, or any of its employees, officers, and existing and prospective customers, suppliers, investors and other associated third parties.

This **Section 5.3** does not, in any way, restrict or impede Executive from exercising protected rights to the extent that such rights cannot be waived by agreement or from complying with any applicable law or regulation or a valid order of a court of competent jurisdiction or an authorized government agency, provided that such compliance does not exceed that required by the law, regulation or order. Executive shall promptly provide written notice of any such order to the chief legal officer of the Company.

5.4 **Remedies.** In the event of a breach or threatened breach by Executive of the covenants contained in this **Section 5**, Executive hereby consents and agrees that the Company shall be entitled to seek, in addition to other available remedies, a temporary or permanent injunction or other equitable relief against such breach or threatened breach from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall be in addition to, not in lieu of, legal remedies, monetary damages or other available forms of relief.

5.5 **Survival of Provisions.** The provisions of this **Section 5** shall survive the termination or expiration of Executive's employment with the Company and shall be fully enforceable thereafter. If it is determined by a court of competent jurisdiction in any state that any restriction in this **Section 5** is excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

6. **RECOUPMENT.**

Notwithstanding any other provisions in this Agreement to the contrary, any incentive-based compensation, or any other compensation, paid to Executive pursuant to this Agreement or any other agreement or arrangement with the Company which is subject to recovery under any law, government regulation or stock exchange listing requirement, will be subject to such deductions and recoupment as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company pursuant to any such law, government regulation or stock exchange listing requirement). Executive specifically authorizes the Company to withhold from his/her future wages or amounts otherwise payable under this Agreement any amounts that may become due under this provision. This **Section 6** shall survive the termination of this Agreement for a period equal to the greater of (a) three (3) years and (b) such longer period required by the applicable law, government regulation, order or stock exchange listing requirement.

7. **SUCCESSORS.**

7.1 **Company's Successors.** Any successor to the Company (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets (a "**Successor**") shall assume the Company's obligations under this Agreement and agree expressly to perform the Company's obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any Successor which executes and delivers the assumption agreement described in this **Section 7.1** or which becomes bound by the terms of this Agreement by operation of law.

7.2 **Executive's Successors.** The terms of this Agreement and all rights of Executive hereunder shall inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

8. **ARBITRATION.**

The Company and Executive each agree that any and all disputes arising out of the terms of this Agreement, Executive's employment by the Company, Executive's service as an officer or director of the Company, or Executive's compensation and benefits, their interpretation and any of the matters herein released, will be subject to binding arbitration. In the event of a dispute, the parties (or their legal representatives) will promptly confer to select a single arbitrator mutually acceptable to both parties. If the parties cannot agree on an arbitrator, then the moving party may file a demand for arbitration with the American Arbitration Association ("AAA") in San Diego County, California, who will be selected and appointed consistent with the AAA-Employment Dispute Resolution Rules, except that such arbitrator must have the qualifications set forth in this paragraph. Any arbitration will be conducted in a manner consistent with AAA National Rules for the Resolution of Employment Disputes, supplemented by the California Rules of Civil Procedure. The parties further agree that the prevailing party in any arbitration will be entitled to injunctive relief in any court of competent jurisdiction to enforce the arbitration award. The parties hereby agree to waive their right to have any dispute between them resolved in a court of law by a judge or jury. This paragraph will not prevent either party from seeking injunctive relief (or any other provisional remedy) from any court having jurisdiction over the parties and the subject matter of their dispute relating to Executive's obligations under **Section 5** of this Agreement and the Company's form of Confidentiality and Inventions Agreement.

9. **SECTION 409A.**

9.1 **General Compliance.** The Company intends that all payments and benefits provided under this Agreement will be exempt from, or comply with, the requirements of Section 409A of the Code ("**Section 409A**") so that none of the payments and benefits will be subject to the additional tax imposed by Section 409A, and this Agreement shall be construed and administered in accordance with such intent. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service described in Treasury Regulation Section 1.409A-1(b)(9)(iii) or as a short-term deferral described in Treasury Regulation Section 1.409A-1(b)(4) shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this Agreement shall be treated as a separate payment. Any payments to be made under this Agreement upon a termination of employment shall only be made upon a "separation from service" under Section 409A. The Company reserves the right to amend this Agreement as it considers necessary or advisable, in its sole discretion and without the consent of Executive or any other individual, to comply with any provision required to avoid the imposition of the additional tax imposed under Section 409A or to otherwise avoid income recognition under Section 409A prior to the actual payment of any benefits or imposition of any additional tax. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A, and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by Executive on account of non-compliance with Section 409A.

9.2 **Specified Employees.** Notwithstanding any other provision of this Agreement, if any payment or benefit provided to Executive in connection with Executive's termination of employment is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A and Executive is determined to be a "specified employee" as defined in Section 409A(a)(2)(b)(i), then such payment or benefit shall not be paid until the first payroll date to occur following the six-month anniversary of the Termination Date (the "**Specified Employee Delay**") or, if earlier, on Executive's death. The aggregate of any payments that would otherwise have been paid during the Specified Employee Delay shall be paid to Executive in a lump sum on completion of the Specified Employee Delay and thereafter, any remaining payments shall be paid without delay in accordance with their original schedule.

9.3 **Reimbursements.** To the extent required by Section 409A, each reimbursement or in-kind benefit provided under this Agreement shall be provided in accordance with the following:

- (a) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during each calendar year cannot affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year;
- (b) any reimbursement of an eligible expense shall be paid to Executive on or before the last day of the calendar year following the calendar year in which the expense was incurred; and
- (c) any right to reimbursements or in-kind benefits under this Agreement shall not be subject to liquidation or exchange for another benefit.

10. **GENERAL PROVISIONS.**

10.1 **Modification and Waiver.** No provision of this Agreement may be amended or modified unless such amendment or modification is agreed to in writing by Executive and the Compensation Committee of the Board of Directors of the Company. No waiver by either of the parties of any breach by the other party hereto of any condition or provision of this Agreement to be performed by the other party hereto shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time, nor shall the failure of or delay by either of the parties in exercising any right, power or privilege hereunder operate as a waiver thereof to preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

10.2 **Unfunded Obligation.** Any amounts payable to Executive pursuant to this Agreement are unfunded obligations. The Company shall not be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any account shall not create or constitute a trust or fiduciary relationship between the Board or the Company and Executive, or otherwise create any vested or beneficial interest in Executive or Executive's creditors in any assets of the Company.

10.3 **Attorneys' Fees.** Each party will bear its own attorneys' fees in any dispute unless a statutory section at issue, if any, authorizes the award of attorneys' fees to the prevailing party.

10.4 **Severability.** In the event any provision of this Agreement is found to be unenforceable by an arbitrator or court of competent jurisdiction, such provision shall be deemed modified to the extent necessary to allow enforceability of the provision as so limited, it being intended that the parties shall receive the benefit contemplated herein to the fullest extent permitted by law. If a deemed modification is not satisfactory in the judgment of such arbitrator or court, the unenforceable provision shall be deemed deleted, and the validity and enforceability of the remaining provisions shall not be affected thereby.

10.5 **Interpretation; Construction.** The headings set forth in this Agreement are for convenience only and shall not be used in interpreting this Agreement. This Agreement has been drafted by legal counsel representing the Company, but Executive has participated in the negotiation of its terms. Furthermore, Executive acknowledges that Executive has had an opportunity to review and revise the Agreement and have it reviewed by legal counsel, if desired, and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

10.6 **Governing Law: Jurisdiction and Venue.** This Agreement, for all purposes, shall be construed in accordance with the laws of the State of California without regard to its conflicts of law principles. Other than as required pursuant to **Section 8**, any action or proceeding by either of the parties to enforce this Agreement shall be brought only in a state or federal court located in the State of California, County of San Diego. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties pursuant to this Agreement that is not subject to arbitration pursuant to **Section 8**, the parties hereby irrevocably submit to the exclusive jurisdiction of such courts and waive the defense of inconvenient forum to the maintenance of any such action or proceeding in such venue.

10.7 **Notices.** Any notice required or permitted by this Agreement shall be in writing and shall be delivered as follows with notice deemed given as indicated: (a) by personal delivery when delivered personally; (b) by overnight courier upon written verification of receipt; (c) by telecopy or facsimile transmission upon acknowledgment of receipt of electronic transmission; or (d) by certified or registered mail, return receipt requested, upon verification of receipt. Notice shall be sent to the address as either party may specify in writing.

10.8 **Withholding.** The Company shall have the right to withhold from any amount payable hereunder any Federal, state and local taxes in order for the Company to satisfy any withholding tax obligation it may have under any applicable law or regulation.

10.9 **Counterparts.** This Agreement may be executed in separate counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

11. **ENTIRE AGREEMENT.**

This Agreement supersedes the Severance Agreement dated April 29, 2019 (the “Prior Agreement”), and such Prior Agreement is null and void. Unless specifically provided by **Section 4** of this Agreement or otherwise provided herein, this Agreement contains all of the understandings and representations between Executive and the Company pertaining to the subject matter hereof and supersedes all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, with respect to such subject matter. The parties mutually agree that the Agreement can be specifically enforced in court and can be cited as evidence in legal proceedings alleging breach of the Agreement.

12. ACKNOWLEDGMENT OF FULL UNDERSTANDING.

EXECUTIVE ACKNOWLEDGES AND AGREES THAT HE/SHE HAS FULLY READ, UNDERSTANDS AND VOLUNTARILY ENTERS INTO THIS AGREEMENT. EXECUTIVE ACKNOWLEDGES AND AGREES THAT HE/SHE HAS HAD AN OPPORTUNITY TO ASK QUESTIONS AND CONSULT WITH AN ATTORNEY OF HIS/HER CHOICE BEFORE SIGNING THIS AGREEMENT.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

EXECUTIVE

Dated: September 8, 2020

By: _____
Name: Ian Lawee
Address: 12367 Crosthwaite Circle
Poway, CA 92064

COMPANY

Cohu, Inc.

Dated: September 8, 2020

By: _____
Name: Luis Müller
Title: CEO
Address: 12367 Crosthwaite Circle
Poway, CA 92064

EXHIBIT A

COHU, INC.

CONFIDENTIALITY AND INVENTIONS AGREEMENT

COHU, INC.
CHANGE IN CONTROL AGREEMENT

THIS CHANGE IN CONTROL AGREEMENT (the “**Agreement**”) is made and entered into as of September 8, 2020, by and between Ian Lawee (“**Executive**”) and Cohu, Inc., a Delaware corporation (the “**Company**”).

WHEREAS, it is expected that the Company from time to time will consider the possibility of an acquisition by another company or other Change in Control, the Compensation Committee (the “**Committee**”) of the Board of Directors of the Company (the “**Board**”) recognizes that such consideration as well as the possibility of a Qualifying Termination of Executive’s employment with the Company can be a distraction to Executive and can cause Executive to consider alternative employment opportunities; and the Committee has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication and objectivity of Executive, notwithstanding the possibility, threat or occurrence of such an event;

WHEREAS, the Committee believes that it is in the best interests of the Company and its stockholders to provide Executive with an incentive to continue employment and to motivate Executive to maximize the value of the Company upon a Change in Control for the benefit of its stockholders;

WHEREAS, the Company and Executive are parties to a separate Severance Agreement, dated as of September 8, 2020 and as amended from time to time (the “**Severance Agreement**”); and

WHEREAS, certain capitalized terms used in this Agreement are defined in **Section 3.7** below;

NOW, THEREFORE, in consideration of the mutual covenants, promises and obligations set forth herein, the parties agree as follows:

1. **TERM.**

This Agreement shall have a term commencing as of September 8, 2020 (the “**Effective Date**”) and continuing until the third (3rd) anniversary thereof (the “**Initial Term**”). The Initial Term shall be automatically extended for successive two (2) year periods (each a “**Renewal Term**” and, together with the Initial Term and each such Renewal Term, the “**Term**”), unless either party has delivered written notice to the other party no later than six (6) months prior to the completion of the then effective Term that this Agreement will not be extended; provided, however, that if such written notice is delivered by the Company to Executive following the Company’s entry into a definitive agreement with respect to a transaction that, if consummated, would result in a Change in Control, then the then effective Term shall not expire sooner than twelve (12) months following the date of such definitive agreement. For the avoidance of doubt, neither the lapse of this Agreement by its terms nor non-renewal of this Agreement will by itself constitute termination of employment nor grounds for resignation for Good Reason. Notwithstanding anything herein to the contrary, if, during the then effective Term, Executive’s employment with the Company has terminated as a result of a Qualifying Termination or Executive has given written notice to the Company of an initial event that would constitute Good Reason, this Agreement shall not terminate until all payments and benefits, if any, have been provided to Executive in accordance with this Agreement.

2. **AT-WILL EMPLOYMENT.**

Executive acknowledges and agrees that nothing in this Agreement shall be construed to imply that Executive’s employment is guaranteed for any period of time. Unless stated in a written agreement authorized by the Committee or the Board and signed by an officer of the Company and Executive, Executive’s employment is at-will, and either the Company or Executive may terminate the employment relationship at any time with or without cause and with or without notice.

3. **TERMINATION OF EMPLOYMENT.**

3.1 **Qualifying Termination.** In the event of Executive’s Qualifying Termination, Executive shall be entitled to receive the Accrued Amounts. In addition, provided that Executive complies with the provisions of **Section 6** and executes a full general release of all claims, known or unknown, that Executive may have against the Company, its affiliates and their respective officers and directors in a form provided by the Company (the “**Release**”) which becomes effective and irrevocable within sixty (60) days following the Termination Date (such 60-day period, the “**Release Execution Period**”), Executive shall be entitled to receive the following severance payments and benefits:

(a) **Base Salary Severance Benefit.** An amount equal to **150%** of Executive’s Base Salary (disregarding any reduction in Base Salary that would constitute Good Reason) shall be paid in cash in a single lump sum on the next regular payroll date following the later of the expiration of the Release Execution Period or the consummation of the Change in Control (but in no event later than the lapsing of the Short-Term Deferral Period).

(b) **Bonus Severance Benefits.**

- (i) **Prorated Bonus.** An amount equal to a prorated portion of Executive's Target Bonus (disregarding any reduction in Target Bonus that would constitute Good Reason) for the fiscal year in which the Termination Date occurs (the "**Prorated Bonus**") shall be paid in cash in a single lump sum on the next regular payroll date following the later of the expiration of the Release Execution Period or the consummation of the Change in Control (but in no event later than the lapsing of the Short-Term Deferral Period). Such prorated portion shall be determined by multiplying the foregoing Target Bonus by a fraction, the numerator of which is equal to the number of days between the start of such fiscal year and the Termination Date and the denominator of which is equal to 365. The actual annual incentive bonus for the fiscal year of Executive's termination of employment shall be forfeited, and Executive shall not be entitled to any payment thereof, other than the severance benefit payment described in this **Section 3.1(b)(i)**.
- (ii) **Target Bonus.** In addition to the Prorated Bonus, an amount equal to **150%** of Executive's Target Bonus (disregarding any reduction in Target Bonus that would constitute Good Reason) for the fiscal year in which the Termination Date occurs (or if greater, for the fiscal year in which the Change in Control occurs) shall be paid in cash in a single lump sum on the next regular payroll date following the later of the expiration of the Release Execution Period or the consummation of the Change in Control (but in no event later than the lapsing of the Short-Term Deferral Period).

(c) **Health Care Benefit.** Payment by the Company of the premiums required to continue Executive's group health care coverage for the same level of health coverage and benefits as in effect for Executive on the day immediately preceding the Termination Date for a period of eighteen (18) months following the Termination Date (the "**Premium Payment Period**") under the applicable provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**"), provided that Executive elects to continue and remains eligible for these benefits under COBRA and does not become eligible for health coverage through another employer during this period. Notwithstanding the foregoing, if the Company determines, in its reasonable discretion, that either (i) the payment of the premiums would result in a violation of the nondiscrimination rules of Section 105(h)(2) of the Internal Revenue Code of 1986, as amended (the "**Code**") or any statute or regulation of similar effect (including but not limited to the 2010 Patient Protection and Affordable Care Act, as amended by the 2010 Health Care and Education Reconciliation Act) (the "**Impermissible Payment**") or (ii) any portion of the Premium Payment Period would exceed the maximum healthcare continuation coverage period available to Executive under COBRA (the "**Excess Payment**"), then, in lieu of paying such premiums with respect to the Impermissible Payment or the Excess Payment, the Company, in its sole discretion, may elect to instead pay Executive on the first day of each month during the Premium Payment Period, a fully taxable cash payment (the "**Special Separation Payment**") equal to the Impermissible Payment or the Excess Payment, as applicable, for that month, grossed-up to cover all applicable withholdings, so that the net benefit to Executive equals the monthly premiums, for the remainder of the Premium Payment Period. The Special Separation Payment with respect to the Impermissible Payment (but not the Excess Payment) will cease should Executive elect to cease, or become ineligible for, continued health care coverage under COBRA.

(d) **Equity Award Treatment.** Notwithstanding the terms of the Equity Plan or applicable award agreements, one hundred percent (100%) of Executive's then unvested awards relating to the Company's common stock or equivalent equity awards as assumed, continued or substituted for by an Acquiror (as defined in **Section 5**), whether stock options, shares of restricted stock, restricted stock units, performance share units, or otherwise (collectively, the "**Equity Awards**"), outstanding as of the Termination Date will become vested in full and will otherwise remain subject to the terms and conditions of the applicable Equity Award agreement, including any delays in the settlement or payment of such awards that are set forth in the applicable Equity Award agreement and that are required under Section 409A of the Code. For the purposes of the preceding sentence, Equity Awards the vesting or earning of which is subject to the achievement of one or more performance goals shall be deemed earned and vested based upon the greater of (i) the portion of the Equity Award that would be earned and vested if all of the performance goals were achieved at the target level or (ii) the extent of the actual achievement of the performance goals as of Executive's Termination Date, if reasonably determinable. In addition, the post-termination exercise period for any outstanding stock option and/or stock appreciation right shall be extended so as to terminate on the first to occur of (i) the date twelve (12) months after Executive's Termination Date, or (ii) the stock option and/or stock appreciation rights' original term expiration (e.g., the award's original ten (10) year expiration date). The foregoing provisions are hereby deemed to be a part of each agreement evidencing an Equity Award to which Executive is a party and to supersede any contrary provision in any such agreement unless such agreement specifically refers to and disclaims this **Section 3.1(d)** of this Agreement.

3.2 **Non-Qualifying Termination.** In the event of Executive's Non-Qualifying Termination, Executive shall be entitled to receive only the Accrued Amounts. However, in the event that Executive's employment terminates due to Executive's death, and subject to execution by Executive's personal representative on behalf of Executive's estate of a Release which becomes effective and irrevocable during the Release Execution Period, the Company shall pay to the Executive's estate a Prorated Bonus for the year in which the Executive dies in a single lump sum as soon as reasonably practicable following the later of the expiration of the Release Execution Period or the consummation of the Change in Control (but in no event later than the lapsing of the Short-Term Deferral Period).

3.3 **Notice of Termination.** Any termination of Executive's employment hereunder by the Company or by Executive during the Term (other than termination on account of Executive's death) shall be communicated by written notice of termination ("**Notice of Termination**") to the other party hereto in accordance with **Section 11.7**. The Notice of Termination shall specify:

- (a) the facts and circumstances claimed to provide a basis for termination of Executive's employment; and
- (b) the applicable Termination Date.

3.4 **Resignation of All Other Positions.** The termination of Executive's employment for any reason will be deemed to constitute, without further required action by Executive, voluntary resignation by Executive, effective on the Termination Date, from all positions that Executive holds as an officer or member of the board of directors (or a committee thereof) of the Company or any of its affiliates. At the Board's request, Executive will execute any documents reasonably necessary to reflect such resignation.

3.5 **Mitigation.** In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement and, except as provided in **Section 3.1(c)** (providing for health care continuation benefits under COBRA), any amounts payable pursuant to this **Section 3** shall not be reduced by compensation Executive earns on account of employment with another employer.

3.6 **Section 280G.**

(a) If any payments and other benefits provided for in this Agreement or otherwise (collectively, the "**Payments**") would, either separately or in the aggregate, constitute "parachute payments" within the meaning of Section 280G of the Code and, but for this **Section 3.6**, would be subject to the excise tax imposed by Section 4999 of the Code, then the Payments will be payable to Executive either in full or in such lesser amounts as would result, after taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, in Executive's receipt on an after-tax basis of the greatest amount of Payments. If a reduction in Payments is required pursuant to this **Section 3.6**, Payments shall be reduced in the following order: (i) reduction or elimination of cash severance benefits that are subject to Section 409A of the Code; (ii) reduction or elimination of cash severance benefits that are not subject to Section 409A of the Code; (iii) cancellation or reduction of accelerated vesting of equity awards that are not stock options or stock appreciation rights; (iv) cancellation or reduction of accelerated vesting of stock options and stock appreciation rights; and (v) reduction or elimination of other Payments. Any reduction of cash severance benefits or other cash Payments shall be made in reverse chronological order such that the cash payment owed on the latest date following the occurrence of the event triggering such excise tax will be the first cash payment to be reduced. Any reduction of accelerated vesting of equity award compensation shall be made in the reverse order of the date of grant so that the accelerated vesting of the most recently granted equity award will be reduced first. In no event shall Executive have any discretion with respect to the ordering of payment or benefits reductions. Executive will be solely responsible for the payment of all personal tax liability incurred as a result of the payments and benefits received under this Agreement, and Executive will not be reimbursed by the Company for any such tax liability.

(b) All calculations and determinations under this **Section 3.6** shall be made by an independent accounting firm or independent tax counsel appointed by the Company (the "**Tax Counsel**") whose determinations shall be conclusive and binding on the Company and Executive for all purposes. For purposes of making the calculations and determinations required by this **Section 3.6**, the Tax Counsel may rely on reasonable, good faith assumptions and approximations concerning the application of Section 280G and Section 4999 of the Code. The Company and Executive shall furnish the Tax Counsel with such information and documents as the Tax Counsel may reasonably request in order to make its determinations under this **Section 3.6**. The Company shall bear all costs the Tax Counsel may reasonably incur in connection with its services hereunder. The Company will have no liability to Executive for the determinations of the Tax Counsel.

3.7 **Definitions of Certain Terms.** Certain capitalized terms not otherwise defined by this Agreement shall have the following meanings:

(a) "**Accrued Amounts**" mean, collectively:

- (i) any accrued but unpaid Base Salary prorated to the Termination Date and accrued but unused vacation, both of which shall be paid on the Termination Date in accordance with the Company's customary payroll procedures;
- (ii) reimbursement of unreimbursed business expenses properly incurred by Executive, which shall be subject to, and paid in accordance with, the Company's expense reimbursement policy; and
- (iii) such employee benefits (including equity compensation), if any, to which Executive may be entitled under the Company's employee benefit plans as of the Termination Date.

(b) "**Base Salary**" means Executive's annual base salary at the rate in effect immediately prior to the Termination Date (disregarding any reduction in Base Salary that would constitute Good Reason).

(c) “Cause” means:

- (i) Executive’s willful and continued failure to perform the duties and responsibilities of his/her position (other than as a result of Executive’s illness or injury) after there has been delivered to Executive a written demand for performance from the Chief Executive Officer which describes the basis for the Chief Executive Officer’s belief that Executive has not substantially performed his/her duties and provides Executive with thirty (30) days to take corrective action;
- (ii) Any material act of personal dishonesty taken by Executive in connection with his/her responsibilities as an employee of the Company with the intention that such action may result in the substantial personal enrichment of Executive;
- (iii) Executive’s conviction of, or plea of *nolo contendere* to, a felony that the Board reasonably believes has had or will have a material detrimental effect on the Company’s reputation or business;
- (iv) A willful breach of any fiduciary duty owed to the Company by Executive that the Board reasonably believes has had, or will have, a material detrimental effect on the Company’s reputation or business;
- (v) Executive being found liable in any Securities and Exchange Commission or other civil or criminal securities law action (regardless of whether or not Executive admits or denies liability), which the Board determines, in its reasonable discretion, has had, or will have, a material detrimental effect on the Company’s reputation or business;
- (vi) Executive entering any cease and desist order with respect to any action which would bar Executive from service as an executive officer or member of a board of directors of any publicly-traded company (regardless of whether or not Executive admits or denies liability);
- (vii) Executive (A) obstructing or impeding; (B) endeavoring to obstruct or impede, or (C) failing to materially cooperate with, any investigation authorized by the Board or any governmental or self-regulatory entity. However, Executive’s failure to waive attorney-client privilege relating to communications with Executive’s own attorney in connection with any such investigation will not constitute “Cause”;

- (viii) Executive's disqualification or bar by any governmental or self-regulatory authority from serving in the capacity in which Executive is then employed by the Company, if (A) the disqualification or bar continues for more than thirty (30) days, and (B) during the initial thirty (30) day period ("**Initial Bar Period**") the Company uses its commercially reasonable efforts to cause the disqualification or bar to be lifted. During the Initial Bar Period, the Board may have Executive serve in his/her then-current capacity with the Company to whatever extent legally permissible or Executive will be placed on paid administrative leave, at the discretion of the Board. If the bar is not lifted within or immediately following the Initial Bar Period, Executive's employment shall terminate for Cause;
- (ix) any material failure by Executive to comply with the Company's written policies or rules, as they may be in effect from time to time during the Term, if such failure has caused, or will cause, material reputational or financial harm to the Company; or
- (x) Executive's material breach of this Agreement or the Company's Confidentiality and Inventions Agreement.

For purposes of this provision, no act or failure to act on the part of Executive shall be considered "willful" unless it is done, or omitted to be done, by Executive in bad faith or without reasonable belief that Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by Executive in good faith and in the best interests of the Company.

(d) "**Change in Control**" means the occurrence of any of the following after the Effective Date:

- (i) Any one person, or more than one person acting as a group (a "**Person**") acquires ownership of the Company's securities that, together with the stock held by such Person, constitutes more than fifty percent (50%) of the total voting power of the Company's then outstanding stock. The term "Person" shall include any natural person, corporation, partnership, trust, or association, or any group or combination thereof, whose ownership of the Company's securities would be required to be reported under Regulation 13(D) under the Securities Exchange Act of 1934, as amended, or any similar successor regulation or rule. For purposes of this clause (i), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control;

- (ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced, excepting the replacement of members who retire due to age limitations as specified in the Company's Corporate Governance Guidelines, during any six (6) month period by members of the Board whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election; or
- (iii) The closing of any transaction involving a change in ownership of a substantial portion of the Company's assets, which occurs on the date that any Person acquires (or has acquired during any twelve (12) month period ending on the date of the most recent acquisition by such Person or Persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions. For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

Notwithstanding the foregoing, the term "Change in Control" shall not include a consolidation, merger, or other reorganization if upon consummation of such transaction all of the outstanding voting stock of the Company is owned, directly or indirectly, by a holding company, and the holders of the Company's common stock immediately prior to the transaction have substantially the same proportionate ownership and voting control of such holding company immediately after such transaction.

Notwithstanding the foregoing, a Change in Control shall not occur unless such transaction constitutes a change in the ownership of the Company, a change in effective control of the Company, or a change in the ownership of a substantial portion of the Company's assets under Section 409A of the Code.

For purposes of this provision, Persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

(e) “**Change in Control Period**” means the period beginning on the date sixty (60) days preceding the date of an event constituting a Change in Control and ending on the second anniversary of the date of the event constituting such Change in Control.

(f) “**Equity Plan**” means the Company’s 2005 Equity Incentive Plan or any successor plan.

(g) “**Good Reason**” means the occurrence of any of the following, in each case during the Term without Executive’s written consent:

- (i) a material reduction in Executive’s Base Salary, other than a general reduction in Base Salary that affects all similarly situated executives in substantially the same proportions;
- (ii) a material reduction in Executive’s Target Bonus opportunity;
- (iii) any material breach by the Company of any material provision of this Agreement;
- (iv) the Company’s failure to obtain an agreement from any successor to the Company to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no succession had taken place, except where such assumption occurs by operation of law;
- (v) a material change in the geographic location at which Executive must perform his/her services; provided that in no instance will the relocation of Executive to a facility or a location that increases Executive’s commute by fifty (50) miles or less be deemed material for purposes of this Agreement.

Before Executive may resign for Good Reason, (A) Executive must provide the Company with written notice within ninety (90) days of the initial event that Executive believes constitutes “Good Reason” specifically identifying the facts and circumstances claimed to constitute the grounds for Executive’s resignation for Good Reason and the proposed termination date (which will be the date thirty (30) days after the giving of written notice hereunder by Executive to the Company), and (B) the Company must have an opportunity within thirty (30) days following delivery of such notice to cure the Good Reason condition, provided that the Company may waive such cure period by giving written notice to Executive that it does not intend to cure such condition. The failure by Executive to include in the notice any fact or circumstance that contributes to a showing of Good Reason will not waive any right of Executive under the Agreement or preclude Executive from asserting such fact or circumstance in enforcing Executive’s rights under the Agreement. Notwithstanding the foregoing, if Executive is determined to have a disability, and if Company offers Executive the opportunity to remain employed in a different capacity that accommodates Executive’s disability, with different duties and compensation structure in lieu of termination, such change in responsibilities and compensation shall not constitute Good Reason.

(h) “**Non-Qualifying Termination**” means any termination of Executive’s employment with the Company which is not a Qualifying Termination.

(i) “**Notice Period**” means a period of thirty (30) days commencing on the date of delivery of a Notice of Termination.

(j) “**Qualifying Termination**” means the occurrence during a Change in Control Period of either (i) termination by the Company of Executive’s employment with the Company for any reason other than Cause or (ii) Executive’s resignation from employment with the Company for Good Reason; provided, however that a Qualifying Termination shall not include any termination of Executive’s employment which is (x) on account of Executive’s death or disability, or (y) a result of Executive’s voluntary termination of employment which is not a resignation for Good Reason.

(k) “**Severance Benefit Period**” means a period of eighteen (18) months following the Termination Date.

(l) “**Short-Term Deferral Period**” means a period determined in accordance with Treasury Regulation Section 1.409A-1(b)(4) beginning on the Termination Date with respect to a Qualifying Termination of Executive and ending on the 15th day of the third month following the later of (i) the last day of the calendar year or (ii) the last day of the Company’s taxable year in which, in either case, the Termination Date occurs.

(m) “**Target Bonus**” means the target amount of Executive’s annual incentive bonus, assuming achievement of all Company performance goals and individual performance goals at their target levels in accordance with the Company’s annual bonus plan and as established by the Committee.

(n) “**Termination Date**” means:

- (i) if the Company terminates Executive’s employment without Cause, the date specified in the Notice of Termination, which shall be the day immediately following completion of the Notice Period commencing on the date on which the Notice of Termination is delivered to Executive; provided that the Company shall have the option to relieve Executive of all job duties, positions and responsibilities for all or any part of the Notice Period and provide Executive with payment of Executive’s then current Base Salary in lieu of any portion of the Notice Period for which Executive is so relieved of duty, which amount shall be paid in a lump sum on Executive’s Termination Date, and, in such case, for all purposes of this Agreement, Executive’s Termination Date shall be the date on which such Notice of Termination is delivered; and

- (ii) if Executive terminates his/her employment with or without Good Reason, the date specified in Executive's Notice of Termination, which shall be the day immediately following completion of the Notice Period commencing on the date on which the Notice of Termination is delivered to the Company; provided that the Company may waive all or any part of the Notice Period by giving written notice of such waiver to Executive and paying Executive's then current Base Salary in lieu of the portion of the Notice Period waived, which amount shall be paid in a lump sum on Executive's Termination Date, and, in such case, for all purposes of this Agreement, Executive's Termination Date shall be the date determined by the Company.

Notwithstanding anything contained herein to the contrary, the Termination Date shall not occur until the date on which Executive incurs a "separation from service" within the meaning of Section 409A of the Code.

4. EXCLUSIVE REMEDY.

In the event of a Change of Control, the provisions of **Section 3** of this Agreement are intended to be and are exclusive and in lieu of any other rights or remedies to which Executive may otherwise be entitled in the event of Executive's Qualifying Termination. In such circumstances, Executive shall be entitled to no benefits, compensation or other payments or rights upon termination of employment other than those benefits expressly set forth in **Section 3.1**, and such benefits shall be in lieu of any other benefits under the Severance Agreement, if applicable.

5. CERTAIN TREATMENT OF EQUITY AWARDS UPON A CHANGE IN CONTROL.

Notwithstanding the terms of the Equity Plan or applicable award agreements, in the event of a Change in Control in which either (a) the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the "**Acquiror**"), does not assume or continue the Company's rights and obligations under a then-outstanding Equity Award or substitute for such Equity Award a substantially equivalent share-based compensation award with respect to the Acquiror's capital stock or (b) the Acquiror is not a publicly held corporation as defined in Section 162(m)(2) of the Code (regardless of whether or not Acquiror is willing to assume, continue or substitute for the Equity Awards) then, in either case, the vesting, exercisability and settlement (as applicable) of such Equity Award shall be accelerated in full effective immediately prior to, but conditioned upon, the consummation of the Change in Control. For the purposes of the preceding sentence, Equity Awards the vesting or earning of which is subject to the achievement of one or more performance goals shall be deemed earned and vested based upon the greater of (i) the portion of the Equity Award that would be earned and vested if all of the performance goals were achieved at the target level or (ii) the extent of the actual achievement of the performance goals as of immediately prior to the Change in Control, if reasonably determinable.

6. **CONDITIONS TO RECEIPT OF SEVERANCE BENEFITS.**

In addition to Executive's Release becoming effective and irrevocable no later than the expiration of the Release Execution Period, Executive's entitlement to the severance payments and benefits set forth in **Section 3.1** shall be subject to Executive's compliance with all of the following:

6.1 **Confidentiality and Proprietary Rights.** Executive is party to a certain Confidentiality and Inventions Agreement dated March 16, 2019. Executive shall continue to abide by his/her obligations under the Confidentiality and Inventions Agreement, which is attached as **Exhibit A** hereto and incorporated herein by reference.

6.2 **Non-Solicitation of Employees.** Executive agrees that during the Severance Benefit Period, Executive will not, either directly or indirectly, separately or in association with others, interfere with, impair, disrupt or damage Company's business by soliciting, encouraging or recruiting any of Company's employees or causing others to solicit or encourage any of Company's employees to discontinue their employment with Company.

6.3 **Non-Disparagement.** Executive agrees and covenants that Executive will not at any time during the Severance Benefit Period make, publish or communicate to any person or entity or in any public forum any defamatory or disparaging remarks, comments or statements concerning the Company or its businesses, or any of its employees, officers, and existing and prospective customers, suppliers, investors and other associated third parties.

This **Section 6.3** does not, in any way, restrict or impede Executive from exercising protected rights to the extent that such rights cannot be waived by agreement or from complying with any applicable law or regulation or a valid order of a court of competent jurisdiction or an authorized government agency, provided that such compliance does not exceed that required by the law, regulation or order. Executive shall promptly provide written notice of any such order to the chief legal officer of the Company.

6.4 **Remedies.** In the event of a breach or threatened breach by Executive of the covenants contained in this **Section 6**, Executive hereby consents and agrees that the Company shall be entitled to seek, in addition to other available remedies, a temporary or permanent injunction or other equitable relief against such breach or threatened breach from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall be in addition to, not in lieu of, legal remedies, monetary damages or other available forms of relief.

6.5 **Survival of Provisions.** The provisions of this **Section 6** shall survive the termination or expiration of Executive's employment with the Company and shall be fully enforceable thereafter. If it is determined by a court of competent jurisdiction in any state that any restriction in this **Section 6** excessive in duration or scope or is unreasonable or unenforceable under the laws of that state, it is the intention of the parties that such restriction may be modified or amended by the court to render it enforceable to the maximum extent permitted by the law of that state.

7. **RECOUPMENT.**

Notwithstanding any other provisions in this Agreement to the contrary, any incentive-based compensation, or any other compensation, paid to Executive pursuant to this Agreement or any other agreement or arrangement with the Company which is subject to recovery under any law, government regulation or stock exchange listing requirement, will be subject to such deductions and recoupment as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company pursuant to any such law, government regulation or stock exchange listing requirement). Executive specifically authorizes the Company to withhold from his/her future wages or amounts otherwise payable under this Agreement any amounts that may become due under this provision. This **Section 7** shall survive the termination of this Agreement for a period equal to the greater of (a) three (3) years and (b) such longer period required by the applicable law, government regulation, order or stock exchange listing requirement.

8. **SUCCESSORS.**

8.1 **Company's Successors.** Any successor to the Company (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets (a "**Successor**") shall assume the Company's obligations under this Agreement and agree expressly to perform the Company's obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any Successor which executes and delivers the assumption agreement described in this **Section 8.1** or which becomes bound by the terms of this Agreement by operation of law.

8.2 **Executive's Successors.** The terms of this Agreement and all rights of Executive hereunder shall inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

9. **ARBITRATION.**

The Company and Executive each agree that any and all disputes arising out of the terms of this Agreement, Executive's employment by the Company, Executive's service as an officer or director of the Company, or Executive's compensation and benefits, their interpretation and any of the matters herein released, will be subject to binding arbitration. In the event of a dispute, the parties (or their legal representatives) will promptly confer to select a single arbitrator mutually acceptable to both parties. If the parties cannot agree on an arbitrator, then the moving party may file a demand for arbitration with the American Arbitration Association ("AAA") in San Diego County, California, who will be selected and appointed consistent with the AAA-Employment Dispute Resolution Rules, except that such arbitrator must have the qualifications set forth in this paragraph. Any arbitration will be conducted in a manner consistent with AAA National Rules for the Resolution of Employment Disputes, supplemented by the California Rules of Civil Procedure. The parties further agree that the prevailing party in any arbitration will be entitled to injunctive relief in any court of competent jurisdiction to enforce the arbitration award. The parties hereby agree to waive their right to have any dispute between them resolved in a court of law by a judge or jury. This paragraph will not prevent either party from seeking injunctive relief (or any other provisional remedy) from any court having jurisdiction over the parties and the subject matter of their dispute relating to Executive's obligations under **Section 6** of this Agreement and the Company's form of Confidentiality and Inventions Agreement.

10. **SECTION 409A.**

10.1 **General Compliance.** The Company intends that all payments and benefits provided under this Agreement will be exempt from, or comply with, the requirements of Section 409A of the Code ("**Section 409A**") so that none of the payments and benefits will be subject to the additional tax imposed by Section 409A, and this Agreement shall be construed and administered in accordance with such intent. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service described in Treasury Regulation Section 1.409A-1(b)(9)(iii) or as a short-term deferral described in Treasury Regulation Section 1.409A-1(b)(4) shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this Agreement shall be treated as a separate payment. Any payments to be made under this Agreement upon a termination of employment shall only be made upon a "separation from service" under Section 409A. The Company reserves the right to amend this Agreement as it considers necessary or advisable, in its sole discretion and without the consent of Executive or any other individual, to comply with any provision required to avoid the imposition of the additional tax imposed under Section 409A or to otherwise avoid income recognition under Section 409A prior to the actual payment of any benefits or imposition of any additional tax. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A, and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by Executive on account of non-compliance with Section 409A.

10.2 **Specified Employees.** Notwithstanding any other provision of this Agreement, if any payment or benefit provided to Executive in connection with Executive's termination of employment is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A and Executive is determined to be a "specified employee" as defined in Section 409A(a)(2)(b)(i), then such payment or benefit shall not be paid until the first payroll date to occur following the six-month anniversary of the Termination Date (the "**Specified Employee Delay**") or, if earlier, on Executive's death. The aggregate of any payments that would otherwise have been paid during the Specified Employee Delay shall be paid to Executive in a lump sum on completion of the Specified Employee Delay and thereafter, any remaining payments shall be paid without delay in accordance with their original schedule.

10.3 **Reimbursements.** To the extent required by Section 409A, each reimbursement or in-kind benefit provided under this Agreement shall be provided in accordance with the following:

- (a) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during each calendar year cannot affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year;
- (b) any reimbursement of an eligible expense shall be paid to Executive on or before the last day of the calendar year following the calendar year in which the expense was incurred; and
- (c) any right to reimbursements or in-kind benefits under this Agreement shall not be subject to liquidation or exchange for another benefit.

11. **GENERAL PROVISIONS.**

11.1 **Modification and Waiver.** No provision of this Agreement may be amended or modified unless such amendment or modification is agreed to in writing by Executive and the Compensation Committee of the Board of Directors of the Company. No waiver by either of the parties of any breach by the other party hereto of any condition or provision of this Agreement to be performed by the other party hereto shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time, nor shall the failure of or delay by either of the parties in exercising any right, power or privilege hereunder operate as a waiver thereof to preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

11.2 **Unfunded Obligation.** Any amounts payable to Executive pursuant to this Agreement are unfunded obligations. The Company shall not be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any account shall not create or constitute a trust or fiduciary relationship between the Board or the Company and Executive, or otherwise create any vested or beneficial interest in Executive or Executive's creditors in any assets of the Company.

11.3 **Attorneys' Fees.** Each party will bear its own attorneys' fees in any dispute unless a statutory section at issue, if any, authorizes the award of attorneys' fees to the prevailing party.

11.4 **Severability.** In the event any provision of this Agreement is found to be unenforceable by an arbitrator or court of competent jurisdiction, such provision shall be deemed modified to the extent necessary to allow enforceability of the provision as so limited, it being intended that the parties shall receive the benefit contemplated herein to the fullest extent permitted by law. If a deemed modification is not satisfactory in the judgment of such arbitrator or court, the unenforceable provision shall be deemed deleted, and the validity and enforceability of the remaining provisions shall not be affected thereby.

11.5 **Interpretation; Construction.** The headings set forth in this Agreement are for convenience only and shall not be used in interpreting this Agreement. This Agreement has been drafted by legal counsel representing the Company, but Executive has participated in the negotiation of its terms. Furthermore, Executive acknowledges that Executive has had an opportunity to review and revise the Agreement and have it reviewed by legal counsel, if desired, and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

11.6 **Governing Law: Jurisdiction and Venue.** This Agreement, for all purposes, shall be construed in accordance with the laws of the State of California without regard to its conflicts of law principles. Other than as required pursuant to **Section 9**, any action or proceeding by either of the parties to enforce this Agreement shall be brought only in a state or federal court located in the State of California, County of San Diego. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties pursuant to this Agreement that is not subject to arbitration pursuant to **Section 9**, the parties hereby irrevocably submit to the exclusive jurisdiction of such courts and waive the defense of inconvenient forum to the maintenance of any such action or proceeding in such venue.

11.7 **Notices.** Any notice required or permitted by this Agreement shall be in writing and shall be delivered as follows with notice deemed given as indicated: (a) by personal delivery when delivered personally; (b) by overnight courier upon written verification of receipt; (c) by telecopy or facsimile transmission upon acknowledgment of receipt of electronic transmission; or (d) by certified or registered mail, return receipt requested, upon verification of receipt. Notice shall be sent to the address as either party may specify in writing.

11.8 **Withholding**. The Company shall have the right to withhold from any amount payable hereunder any Federal, state and local taxes in order for the Company to satisfy any withholding tax obligation it may have under any applicable law or regulation.

11.9 **Counterparts**. This Agreement may be executed in separate counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

12. **ENTIRE AGREEMENT**.

This Agreement supersedes the Change in Control Agreement dated April 29, 2019 (the “Prior Agreement”), and such Prior Agreement is null and void. Unless specifically provided herein, this Agreement contains all of the understandings and representations between Executive and the Company pertaining to the subject matter hereof and supersedes all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, with respect to such subject matter, and such benefits shall be in lieu of any other benefits under the Severance Agreement, if applicable. The parties mutually agree that the Agreement can be specifically enforced in court and can be cited as evidence in legal proceedings alleging breach of the Agreement.

13. ACKNOWLEDGMENT OF FULL UNDERSTANDING.

EXECUTIVE ACKNOWLEDGES AND AGREES THAT HE/SHE HAS FULLY READ, UNDERSTANDS AND VOLUNTARILY ENTERS INTO THIS AGREEMENT. EXECUTIVE ACKNOWLEDGES AND AGREES THAT HE/SHE HAS HAD AN OPPORTUNITY TO ASK QUESTIONS AND CONSULT WITH AN ATTORNEY OF HIS/HER CHOICE BEFORE SIGNING THIS AGREEMENT.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

EXECUTIVE

Dated: September 8, 2020

By: _____
Name: Ian Lawee
Address: 12367 Crosthwaite Circle
Poway, CA 92064

COMPANY

Cohu, Inc.

Dated: September 8, 2020

By: _____
Name: Luis M. Miller
Title: CEO

Address: 12367 Crosthwaite Circle
Poway, CA 92064

EXHIBIT A

COHU, INC.

CONFIDENTIALITY AND INVENTIONS AGREEMENT

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

I, Luis A. Müller, certify that:

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

Date: April 29, 2022

/s/ Luis A. Müller

Luis A. Müller

President & Chief Executive Officer

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

I, Jeffrey D. Jones, certify that:

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

Date: April 29, 2022

/s/ Jeffrey D. Jones

Jeffrey D. Jones
Senior Vice President Finance & Chief Financial
Officer

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

In connection with the accompanying Quarterly Report of Cohu, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended March 26, 2022 (the "Report"), I, Luis A. Müller, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

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

Date: April 29, 2022

/s/ Luis A. Müller

Luis A. Müller,
President & Chief Executive Officer

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

In connection with the accompanying Quarterly Report of Cohu, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended March 26, 2022 (the "Report"), I, Jeffrey D. Jones, Vice President Finance & Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

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

Date: April 29, 2022

/s/ Jeffrey D. Jones
Jeffrey D. Jones,
Senior Vice President Finance & Chief Financial Officer