

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

(Mark One)

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

For the quarterly period ended September 26, 2020

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 October 28, 2020 the Registrant had 41,965,802 shares of its \$1.00 par value common stock outstanding.

COHU, INC.
INDEX
FORM 10-Q
SEPTEMBER 26, 2020

<u>Part I</u>	<u>Financial Information</u>	<u>Page Number</u>
Item 1.	Financial Statements:	
	Condensed Consolidated Balance Sheets September 26, 2020 (unaudited) and December 28, 2019	3
	Condensed Consolidated Statements of Operations (unaudited) Three and Nine Months Ended September 26, 2020 and September 28, 2019	4
	Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited) Three and Nine Months Ended September 26, 2020 and September 28, 2019	5
	Condensed Consolidated Statements of Stockholder's Equity (unaudited) Three and Nine Months Ended September 26, 2020 and September 28, 2019	6
	Condensed Consolidated Statements of Cash Flows (unaudited) Nine Months Ended September 26, 2020 and September 28, 2019	7
	Notes to Unaudited Condensed Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	39
Item 4.	Controls and Procedures	40
<u>Part II</u>	<u>Other Information</u>	
Item 1.	Legal Proceedings	41
Item 1A.	Risk Factors	41
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	55
Item 3.	Defaults Upon Senior Securities	55
Item 4.	Mine Safety Disclosures	55
Item 5.	Other Information	55
Item 6.	Exhibits	56
	Signatures	57

[Table of Contents](#)**Item 1.**

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

	September 26, 2020 (Unaudited)	December 28, 2019 *
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 169,926	\$ 155,194
Short-term investments	949	904
Accounts receivable, net	116,805	127,921
Inventories	137,879	130,706

Assets held for sale	-	827
Prepaid expenses	17,986	17,483
Other current assets	1,273	3,158
Current assets of discontinued operations (Note 10)	-	3,503
Total current assets	444,818	439,696
Property, plant and equipment, net	64,546	70,912
Goodwill	244,341	238,669
Intangible assets, net	238,832	275,019
Other assets	23,717	20,030
Operating lease right of use assets	30,099	33,269
Noncurrent assets of discontinued operations (Note 10)	-	115
	<u>\$ 1,046,353</u>	<u>\$ 1,077,710</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Short-term borrowings	\$ 5,209	\$ 3,195
Current installments of long-term debt	2,990	3,322
Accounts payable	49,366	48,697
Customer advances	11,116	12,160
Accrued compensation and benefits	32,524	23,741
Deferred profit	11,859	7,645
Accrued warranty	5,674	5,893
Income taxes payable	4,795	3,894
Other accrued liabilities	23,370	39,739
Current liabilities of discontinued operations (Note 10)	-	599
Total current liabilities	146,903	148,885

Accrued retirement benefits	22,909	21,930
Deferred income taxes	28,842	31,310
Noncurrent income tax liabilities	6,966	8,438
Long-term debt	331,469	346,518
Long-term lease liabilities	26,532	28,877
Other accrued liabilities	8,123	8,656
Noncurrent liabilities of discontinued operations (Note 10)	-	24

Stockholders' equity:

Preferred stock, \$1 par value; 1,000 shares authorized, none issued	-	-
Common stock, \$1 par value; 60,000 shares authorized, 41,962 shares issued and outstanding in 2020 and 41,395 shares in 2019	41,962	41,395
Paid-in capital	442,648	433,190
Retained earnings	11,369	42,517
Accumulated other comprehensive loss	(21,370)	(34,030)
Total stockholders' equity	<u>474,609</u>	<u>483,072</u>
	<u>\$ 1,046,353</u>	<u>\$ 1,077,710</u>

* Derived from December 28, 2019 audited financial statements

The accompanying notes are an integral part of these statements.

[Table of Contents](#)

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

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net sales	\$ 150,647	\$ 143,498	\$ 433,652	\$ 441,318
Cost and expenses:				
Cost of sales (1)	87,147	84,565	253,111	265,564
Research and development	20,497	20,483	63,389	65,324
Selling, general and administrative	31,336	33,690	95,664	108,404
Amortization of purchased intangible assets	9,783	9,969	28,848	29,975
Restructuring charges	412	814	1,400	10,720
Impairment charges	7,300	-	11,249	-
Gain on sale of facilities	(4,468)	-	(4,495)	-
	<u>152,007</u>	<u>149,521</u>	<u>449,166</u>	<u>479,987</u>
Loss from operations	(1,360)	(6,023)	(15,514)	(38,669)

Other (expense) income:				
Interest expense	(3,021)	(5,000)	(10,904)	(15,789)
Interest income	42	190	210	603
Foreign transaction gain (loss)	(1,484)	1,630	(2,528)	1,302
Gain on extinguishment of debt	293	-	293	-
Loss from continuing operations before taxes	(5,530)	(9,203)	(28,443)	(52,553)
Income tax provision	1,116	1,277	261	161
Loss from continuing operations	(6,646)	(10,480)	(28,704)	(52,714)
Income from discontinued operations	-	154	42	342
Net loss	\$ (6,646)	\$ (10,326)	\$ (28,662)	\$ (52,372)
Net income attributable to noncontrolling interest	\$ -	\$ 142	\$ -	\$ 62
Net loss attributable to Cohu	\$ (6,646)	\$ (10,468)	\$ (28,662)	\$ (52,434)
Loss per share:				
Basic:				
Loss from continuing operations before noncontrolling interest	\$ (0.16)	\$ (0.25)	\$ (0.69)	\$ (1.28)
Income from discontinued operations	-	0.00	0.00	0.00
Net income attributable to noncontrolling interest	-	0.00	-	0.00
Net loss attributable to Cohu	\$ (0.16)	\$ (0.25)	\$ (0.69)	\$ (1.28)
Diluted:				
Loss from continuing operations before noncontrolling interest	\$ (0.16)	\$ (0.25)	\$ (0.69)	\$ (1.28)
Income from discontinued operations	-	0.00	0.00	0.00
Net income attributable to noncontrolling interest	-	0.00	-	0.00
Net loss attributable to Cohu	\$ (0.16)	\$ (0.25)	\$ (0.69)	\$ (1.28)
Weighted average shares used in computing loss per share:				
Basic	41,947	41,229	41,764	41,075
Diluted	41,947	41,229	41,764	41,075
Cash dividends declared per share	\$ -	\$ 0.06	\$ 0.06	\$ 0.18

(1) Excludes amortization of \$7,447 and \$7,597 for the three months ended September 26, 2020 and September 28, 2019, respectively, and \$21,969 and \$22,863 for the nine months ended September 26, 2020 and September 28, 2019, respectively.

The accompanying notes are an integral part of these statements.

4

[Table of Contents](#)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(in thousands)

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net loss	\$ (6,646)	\$ (10,326)	\$ (28,662)	\$ (52,372)
Net income attributable to noncontrolling interest	-	142	-	62
Net loss attributable to Cohu	(6,646)	(10,468)	(28,662)	(52,434)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	11,692	(13,276)	12,660	(14,854)
Adjustments related to postretirement benefits	-	35	-	470
Other comprehensive income (loss), net of tax	11,692	(13,241)	12,660	(14,384)
Other comprehensive loss attributable to noncontrolling interest	-	-	-	(4)
Other comprehensive income (loss) attributable to Cohu	11,692	(13,241)	12,660	(14,380)
Comprehensive income (loss)	5,046	(23,567)	(16,002)	(66,756)
Comprehensive income attributable to noncontrolling interest	-	142	-	58
Comprehensive income (loss) attributable to Cohu	\$ 5,046	\$ (23,709)	\$ (16,002)	\$ (66,814)

The accompanying notes are an integral part of these statements.

5

[Table of Contents](#)

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

Three Months Ended September 26, 2020	Common stock \$1 par value	Paid-in capital	Retained earnings	Accumulated other comprehensive loss	Noncontrolling interest	Total
Balance at June 27, 2020	\$ 41,862	\$ 439,943	\$ 18,015	\$ (33,062)	\$ -	\$ 466,758
Net loss	-	-	(6,646)	-	-	(6,646)
Changes in cumulative translation adjustment	-	-	-	11,692	-	11,692
Exercise of stock options	6	80	-	-	-	86
Shares issued for restricted stock units vested	127	(127)	-	-	-	-
Repurchase and retirement of stock	(33)	(547)	-	-	-	(580)
Share-based compensation expense	-	3,299	-	-	-	3,299
Balance at September 26, 2020	\$ 41,962	\$ 442,648	\$ 11,369	\$ (21,370)	\$ -	\$ 474,609

Nine Months Ended September 26, 2020

Balance at December 28, 2019	\$ 41,395	\$ 433,190	\$ 42,517	\$ (34,030)	\$ -	\$ 483,072
Net loss	-	-	(28,662)	-	-	(28,662)
Changes in cumulative translation adjustment	-	-	-	12,660	-	12,660
Cash dividends - \$0.06 per share	-	-	(2,486)	-	-	(2,486)
Exercise of stock options	28	347	-	-	-	375
Shares issued under ESPP	114	1,488	-	-	-	1,602
Shares issued for restricted stock units vested	614	(614)	-	-	-	-
Repurchase and retirement of stock	(189)	(2,076)	-	-	-	(2,265)
Share-based compensation expense	-	10,313	-	-	-	10,313
Balance at September 26, 2020	\$ 41,962	\$ 442,648	\$ 11,369	\$ (21,370)	\$ -	\$ 474,609

Three Months Ended September 28, 2019

Balance at June 29, 2019	\$ 41,100	\$ 425,609	\$ 75,115	\$ (27,019)	\$ (356)	\$ 514,449
Net loss	-	-	(10,326)	-	-	(10,326)
Changes in cumulative translation adjustment	-	-	-	(13,276)	-	(13,276)
Adjustments related to postretirement benefits, net of tax	-	-	-	35	-	35
Cash dividends - \$0.06 per share	-	-	(2,469)	-	-	(2,469)
Exercise of stock options	22	186	-	-	-	208
Shares issued for restricted stock units vested	203	(203)	-	-	-	-
Repurchase and retirement of stock	(60)	(670)	-	-	-	(730)
Share-based compensation expense	-	3,506	-	-	-	3,506
Balance at September 28, 2019	\$ 41,265	\$ 428,428	\$ 62,320	\$ (40,260)	\$ (356)	\$ 491,397

Nine Months Ended September 28, 2019

Balance at December 29, 2018	\$ 40,763	\$ 419,690	\$ 111,670	\$ (25,880)	\$ (299)	\$ 545,944
Cumulative effect of accounting change (a)	-	-	10,352	-	-	10,352
Net loss	-	-	(52,372)	-	-	(52,372)
Changes in cumulative translation adjustment	-	-	-	(14,850)	(4)	(14,854)
Adjustments related to postretirement benefits, net of tax	-	-	-	470	-	470
Cash dividends - \$0.18 per share	-	-	(7,383)	-	-	(7,383)
Exercise of stock options	37	293	-	-	-	330
Shares issued under ESPP	64	743	-	-	-	807
Shares issued for restricted stock units vested	597	(597)	-	-	-	-
Repurchase and retirement of stock	(196)	(2,562)	-	-	-	(2,758)
Noncontrolling interest	-	-	53	-	(53)	-
Share-based compensation expense	-	10,861	-	-	-	10,861
Balance at September 28, 2019	\$ 41,265	\$ 428,428	\$ 62,320	\$ (40,260)	\$ (356)	\$ 491,397

(a) Cumulative effect of accounting change relates to our adoption of ASU 2016-02. Please refer to Note 1 of the Condensed Consolidated Financial Statements for further detail on the adoption of this accounting standard.

The accompanying notes are an integral part of these statements.

	Nine Months Ended	
	September 26, 2020	September 28, 2019
Cash flows from operating activities:		
Net loss attributable to Cohu	\$ (28,662)	\$ (52,434)
Net income attributable to noncontrolling interest	-	62
Adjustments to reconcile net loss to net cash provided by operating activities:		
Gain on disposal of discontinued operation	(35)	-
Gain on extinguishment of debt	(293)	-
Impairment charges related to indefinite lived intangibles	11,249	-
Gain from sale of property, plant and equipment	(4,328)	(350)
Depreciation and amortization	39,283	45,353
Share-based compensation expense	10,313	10,861
Amortization of inventory step-up and inventory related charges	4,281	5,939
Deferred income taxes	(5,194)	(7,698)
Increase in accrued retiree medical benefits	757	281
Changes in other accrued liabilities	(601)	3,999
Changes in other assets	144	(2,853)
Amortization of cloud-based software implementation costs	830	-
Interest capitalized associated with cloud computing implementation	(95)	(68)
Amortization of debt discounts and issuance costs	892	826
Changes in assets and liabilities:		
Customer advances	(988)	1,480
Accounts receivable	13,028	21,757
Inventories	(11,399)	(660)
Other current assets	2,241	(7,304)
Accounts payable	(3,475)	(2,804)
Deferred profit	4,170	1,096
Income taxes payable	(1,245)	(3,747)
Accrued compensation, warranty and other liabilities	(2,631)	(10,298)
Operating lease right-of-use assets	5,237	-
Current and long-term operating lease liabilities	(5,459)	-
Net cash provided by operating activities	28,020	3,438
Cash flows from investing activities:		
Net cash received from sale of fixtures services business	2,975	-
Cash received from sale of property, plant and equipment	16,982	1,519
Purchases of property, plant and equipment	(13,559)	(13,347)
Net cash provided by (used in) investing activities	6,398	(11,828)
Cash flows from financing activities:		
Cash dividends paid	(4,971)	(7,359)
Repurchases of common stock, net	(220)	(1,212)
Proceeds from revolving line of credit and construction loans	5,878	3,720
Repayments of long-term debt	(20,246)	(3,598)
Net cash used in financing activities	(19,559)	(8,449)
Effect of exchange rate changes on cash and cash equivalents	(863)	(1,812)
Net increase (decrease) in cash and cash equivalents	13,996	(18,651)
Cash and cash equivalents including discontinued operations at beginning of period	155,930	164,921
Cash and cash equivalents including discontinued operations at end of period	169,926	146,270
Cash held by discontinued operations at end of period	-	(1,176)
Cash and cash equivalents from continuing operations at end of period	\$ 169,926	\$ 145,094
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 5,122	\$ 13,275
Inventory capitalized as property, plant and equipment	\$ 827	\$ 261
Dividends declared but not yet paid	\$ -	\$ 2,468
Property, plant and equipment purchases included in accounts payable	\$ 1,635	\$ 853
Capitalized cloud computing service costs included in accounts payable	\$ 1,923	\$ 2,185
Cash paid for interest	\$ 13,615	\$ 14,820

The accompanying notes are an integral part of these statements

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

1. Summary of Significant Accounting Policies

Basis of Presentation

Our fiscal years are based on a 52- or 53-week period ending on the last Saturday in December. The condensed consolidated balance sheet at December 28, 2019, has been derived from our audited financial statements at that date. The interim condensed consolidated financial statements as of September 26, 2020, (also referred to as “the third quarter of fiscal 2020” and “the first nine months of fiscal 2020”) and September 28, 2019, (also referred to as “the third quarter of fiscal 2019” and “the first nine months of fiscal 2019”) 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. Both the three- and nine-month periods ended September 26, 2020 and September 28, 2019, were comprised of 13 and 39 weeks, respectively.

Our interim results are not necessarily indicative of the results that should be expected for the full year. The condensed consolidated financial statements presented herein reflect estimates and assumptions made by management at September 26, 2020 and for the nine months ended September 26, 2020. 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 28, 2019, which are included in our 2019 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”.

On December 28, 2019, we divested our entire 20% interest in ALBS Solutions Sdn Bhd (“ALBS”), our only consolidated variable interest entity (VIE). As a result of the divestment, we no longer had a controlling interest in ALBS and no longer consolidate ALBS as of that date.

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

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on our reported results of operations, stockholder’s equity or cash flows.

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.

We adopted ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, on December 29, 2019 the first day of our fiscal 2020. The ASU required a cumulative-effect adjustment to the statement of financial position as of the date of adoption. Periods prior to the adoption that are presented for comparative purposes are not adjusted. Based on our analysis of historical and anticipated collections of trade receivables the impact of adoption of Topic 326 was insignificant. Our trade accounts receivable are presented net of allowance for credit losses, which were insignificant at September 26, 2020 and December 28, 2019. 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 at September 26, 2020, 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.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

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

	September 26, 2020	December 28, 2019
Raw materials and purchased parts	\$ 74,639	\$ 69,665
Work in process	47,936	46,591
Finished goods	15,304	14,450
Total inventories	<u>\$ 137,879</u>	<u>\$ 130,706</u>

Gain on Sale of Facilities

As part of our previously announced Xcerra integration plan we implemented certain facility consolidation actions. See Note 4, “Restructuring Charges” for additional information on this program. During the third quarter of 2020, we completed the sale of our facility located in Rosenheim, Germany which resulted in a gain of \$4.5 million. During the second quarter of 2020, we completed the sale of our facility in Penang Malaysia which resulted in a gain of \$27,000. The gain on the sale of our Malaysia facility was previously included in selling, general and administrative costs in our condensed consolidated statements of operations and was reclassified to gain on sale of facilities for the nine months ended September 26, 2020.

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*):

	September 26, 2020	December 28, 2019
Land and land improvements	\$ 7,881	\$ 11,659
Buildings and building improvements	41,624	41,474
Machinery and equipment	63,577	61,006
	113,082	114,139
Less accumulated depreciation and amortization	(48,536)	(43,227)
Property, plant and equipment, net	<u>\$ 64,546</u>	<u>\$ 70,912</u>

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 four identified operating segments are: Test Handler Group (THG), Semiconductor Tester Group (STG), Interface Solutions Group (ISG) and PCB Test Group (PTG). 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 two segments, Semiconductor Test and Inspection Equipment (“Semiconductor Test & Inspection”) and PCB Test Equipment (“PCB Test”).

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

We evaluate goodwill and other indefinite-lived intangible assets, which are solely comprised of in-process research and development (“IPR&D”), 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 or asset, in the case of in-process research and development. 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
September 26, 2020

We conduct our annual impairment test as of October 1st of each year, and have determined there was no impairment as of October 1, 2019 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. See Note 2, “Goodwill and Purchased Intangible Assets” for additional information on our interim assessments during 2020.

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. We evaluated the expected undiscounted cashflows of these assets as of March 28, 2020 and determined there was no impairment. During the third quarter of 2020, no events or conditions occurred suggesting an impairment in our 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 relative standalone selling price 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.

Debt Issuance Costs

We capitalized costs related to the issuance of debt. Debt issuance costs directly related to our Term B Loan 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 \$0.3 million and \$0.9 million for the three and nine months ended September 26, 2020, respectively. Amortization related to deferred debt issuance costs and original discount costs was \$0.3 million and \$0.8 million for the three and nine months ended September 28, 2019, respectively.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

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 and nine months ended September 26, 2020, we recognized foreign exchange losses of \$1.5 million and \$2.5 million, respectively, in our condensed consolidated statements of operations. During the three and nine months ended September 28, 2019, we recognized foreign exchange gains of \$1.6 million and \$1.3 million, respectively, in our condensed consolidated statements of operations. 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 foreign currency 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. Subsequent to the third quarter of 2020 on October 2, 2020, we entered 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 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.

We do not intend to use derivative financial instruments for speculative or trading purposes. For accounting purposes, our foreign currency forward contracts will not be designated as hedging instruments and, accordingly, we will 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 operations for both realized and unrealized gains and losses.

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 our condensed consolidated financial statements, as follows (*in thousands*):

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Cost of sales	\$ 218	\$ 212	\$ 641	\$ 545
Research and development	782	820	2,443	2,234
Selling, general and administrative	2,299	2,474	7,229	8,082
Total share-based compensation	3,299	3,506	10,313	10,861
Income tax benefit	(215)	(67)	(610)	(426)
Total share-based compensation, net	<u>\$ 3,084</u>	<u>\$ 3,439</u>	<u>\$ 9,703</u>	<u>\$ 10,435</u>

Income (Loss) Per Share

Basic income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the reporting period. Diluted income (loss) 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 (loss) per share, stock options with exercise prices that exceed the average fair market value of our common stock for the period are excluded. For the three and nine months ended September 26, 2020, stock options and awards to issue approximately 109,000 and 151,000 shares of common stock were excluded from the computation, respectively. For the three and nine months ended September 28, 2019, stock options and awards to issue approximately 459,000 and 487,000 shares of common stock were excluded from the computation, respectively.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

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

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Weighted average common shares	41,947	41,229	41,764	41,075
Effect of dilutive securities	-	-	-	-
	<u>41,947</u>	<u>41,229</u>	<u>41,764</u>	<u>41,075</u>

Cohu has utilized the “control number” concept in the computation of diluted earnings per share to determine whether potential common stock instruments are dilutive. The control number used is income from continuing operations. The control number concept requires that the same number of potentially dilutive securities applied in computing diluted earnings per share from continuing operations be applied to all other categories of income or loss, regardless of their anti-dilutive effect on such categories.

Leases

We adopted *ASU 2016-02, Leases (Topic 842)*, as of December 30, 2018, using the optional transition method which allowed us to record existing leases at adoption and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We had previously recorded a sale and operating leaseback transaction in accordance with Topic 840 and as a result of the adoption of the new standard, recognized \$10.2 million of deferred gain as an adjustment to retained earnings. In addition, we had previously recognized assets and liabilities related to a build-to-suit designation under Topic 840 and, as a result of the adoption of the new standard, derecognized assets and liabilities of \$0.5 million and \$0.6 million, respectively, with the difference recorded as an adjustment to retained earnings. The difference between the additional lease assets and lease liabilities, net of the deferred tax impact, was recorded as an adjustment to retained earnings.

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 operations 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.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

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.

Unsatisfied performance obligations primarily represent contracts for products with future delivery dates. At September 26, 2020, we had \$8.7 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 September 26, 2020, we had deferred revenue totaling approximately \$21.9 million, current deferred profit of \$11.9 million and deferred profit expected to be recognized after one year included in noncurrent other accrued liabilities of \$6.8 million. At December 28, 2019, we had deferred revenue totaling approximately \$16.1 million, current deferred profit of \$7.6 million and deferred profit expected to be recognized after one year included in noncurrent other accrued liabilities of \$7.2 million.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

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

<i>Disaggregated Net Sales</i>	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
<i>Systems:</i>				
Semiconductor Test & Inspection	\$ 70,360	\$ 70,654	\$ 214,910	\$ 226,749
PCB Test	8,990	6,853	23,939	22,232
<i>Non-systems:</i>				
Semiconductor Test & Inspection	66,865	62,166	181,756	180,343
PCB Test	4,432	3,825	13,047	11,994
	<u>\$ 150,647</u>	<u>\$ 143,498</u>	<u>\$ 433,652</u>	<u>\$ 441,318</u>

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

<i>Disaggregated Net Sales</i>	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
China	\$ 30,423	\$ 31,076	\$ 92,367	\$ 87,365
United States	32,111	21,918	71,739	58,427
Malaysia	11,435	12,991	38,451	47,698
Taiwan	22,689	20,341	59,060	52,513
Philippines	11,860	12,330	35,170	38,266
Rest of the World	42,129	44,842	136,865	157,049
Total net sales	<u>\$ 150,647</u>	<u>\$ 143,498</u>	<u>\$ 433,652</u>	<u>\$ 441,318</u>

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		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
<i>Semiconductor Test & Inspection</i>				
Customers individually accounting for more than 10% of net sales	*	*	one	one
Percentage of net sales	*	*	11%	11%
<i>PCB Test</i>				
Customers individually accounting for more than 10% of net sales	*	*	*	*
Percentage of net sales	*	*	*	*

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

Accumulated Other Comprehensive Loss

Our accumulated other comprehensive loss balance totaled approximately \$21.4 million and \$34.0 million at September 26, 2020 and December 28, 2019, 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 and adjustments related to postretirement benefits. Reclassification adjustments from accumulated other comprehensive loss during the first nine months of fiscal 2020 and 2019 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 first nine months of fiscal 2020 and 2019 was not significant.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

Discontinued Operations

Management determined that the fixtures services business, that was acquired as part of Xcerra, did not align with Cohu's long-term strategic plan and divested this portion of the business in February 2020. As a result, the assets of our fixtures business are considered "held for sale" and the operations of our fixtures business are considered "discontinued operations" as of December 28, 2019. See Note 10, "Discontinued Operations" for additional information. Unless otherwise indicated, all amounts herein relate to continuing operations.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 was subsequently amended by ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses*, ASU 2019-05, *Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief*, ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates* and ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. ASU 2016-13, as amended, affects trade receivables, financial assets and certain other instruments that are not measured at fair value through net income. The adoption of ASU 2016-13 did not have a material impact on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which improves fair value disclosure requirements by removing disclosures that are not cost beneficial, clarifying disclosures' specific requirements and adding relevant disclosure requirements. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted, and an entity can choose to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. The adoption of ASU 2018-13 did not have a material impact on our disclosures.

In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes by eliminating certain exceptions for investments, intraperiod allocations and interim calculations. The new guidance also simplifies aspects of the accounting for franchise taxes, enacted changes in tax laws or rates, and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The amendments did not create new accounting requirements. We adopted the standard as of December 29, 2019. The adoption of this standard did not have a significant impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-14, *Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*, which improves defined benefit disclosure requirements by removing disclosures that are not cost beneficial, clarifying disclosures' specific requirements and adding relevant disclosure requirements. This ASU is effective for fiscal years ending after December 15, 2020 and early adoption is permitted. The amendments in this ASU are required to be applied on a retrospective basis to all periods presented. We are currently assessing and have not yet determined the impact that the adoption of ASU 2018-14 will have on the disclosures to our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions affected by reference rate reform. Our Term Loan Credit Facility bears interest at fluctuating interest rates based on LIBOR. If LIBOR ceases to exist, we may need to renegotiate our loan and we cannot predict what alternative index would be negotiated with our lenders. ASU 2020-04 was effective upon issuance and may be applied prospectively to contract modifications made on or before December 31, 2022. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

All other newly issued accounting pronouncements not yet effective have been deemed either immaterial or not applicable.

2. Goodwill and Purchased Intangible Assets

Goodwill and Intangible Assets

Changes in the carrying value of goodwill during the year ended December 28, 2019, and the nine-month period ended September 26, 2020, by segment, were as follows (*in thousands*):

	Semiconductor Test & Inspection	PCB Test	Total
Balance, December 30, 2018	\$ 220,808	\$ 21,319	\$ 242,127
Adjustments	2,117	(983)	1,134
Impairments	(715)	-	(715)
Impact of currency exchange	(3,435)	(442)	(3,877)
Balance, December 28, 2019	218,775	19,894	238,669
Impact of currency exchange	4,953	719	5,672
Balance, September 26, 2020	<u>\$ 223,728</u>	<u>\$ 20,613</u>	<u>\$ 244,341</u>

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

	September 26, 2020			December 28, 2019	
	Gross Carrying Amount	Accum. Amort.	Remaining Weighted Average Amort. Period (in years)	Gross Carrying Amount	Accum. Amort.
Developed technology	\$ 233,442	\$ 73,584	6	\$ 227,619	\$ 49,805
Customer relationships	73,165	20,282	8.7	72,251	14,824
Trade names	23,154	5,591	8.9	22,612	3,892
Covenant not-to-compete	334	125	6.3	322	96
Total intangible assets	<u>\$ 330,095</u>	<u>\$ 99,582</u>		<u>\$ 322,804</u>	<u>\$ 68,617</u>

The table above excludes \$8.3 million and \$20.8 million of IPR&D, at September 26, 2020 and December 28, 2019, respectively, which has an indefinite life and is subject to impairment or future amortization as developed technology when the projects are completed. During the nine months ended September 26, 2020, we completed certain projects previously included in IPR&D and transferred \$1.3 million to developed technology. Changes in the carrying values of purchased intangible assets presented above are a result of the impact of fluctuation in currency exchange rates.

We evaluate goodwill and other indefinite-lived intangible assets for impairment annually and when an event occurs, or circumstances change that indicate that the carrying value may not be recoverable. We previously completed our required annual goodwill and indefinite-lived intangible impairment testing as of October 1, 2019, the first day of our fourth quarter and concluded there were no impairments of goodwill within our reporting units or our indefinite-lived intangible assets.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

Other events and changes in circumstances may also require goodwill to be tested for impairment between annual measurement dates. During the first quarter of 2020, the volatility in Cohu's stock price, the global economic downturn and business interruptions associated with the COVID-19 pandemic led us to determine that there was a triggering event related to goodwill within all of our identified reporting units and our indefinite-lived intangible assets. We performed an interim assessment as of March 28, 2020 and determined that the fair values of our identified reporting units all exceeded their carrying values and we concluded there was no impairment of goodwill within our reporting units. Anticipated delays in customer adoption of certain new products under development as a result of the COVID-19 pandemic, changes to future project roadmaps and an increase in the discount rate used in the developing our interim fair value estimate resulted in a \$3.9 million impairment to IPR&D as the carrying value exceeded fair value. During the third quarter of 2020, we became aware of additional delays in customer adoption of these new products under development leading us to re-evaluate the fair value of these projects and we determined that the carrying value exceeded the fair value and, as a result, we recorded a \$7.3 million impairment to IPR&D. For the nine months ended September 26, 2020 total impairments recorded to IPR&D projects was \$11.2 million. We also considered changes in market volatility, the improvement in Cohu's stock price and our actual and expected operating results as compared to the forecasts utilized during our first quarter test noting no events or conditions that suggested a triggering event had occurred related to our goodwill as of September 26, 2020.

The forecasts utilized in the interim impairment tests were based on known facts and circumstances. We evaluate and consider recent events and uncertain items, as well as related potential implications, as part of our annual and interim assessments and incorporate them into the analyses as appropriate. These facts and circumstances are subject to change and may not be the same as future analyses. In a future period, should we again determine that an interim goodwill and indefinite-lived intangible asset impairment review is required, we may be required to book additional impairment charges which could have a significant negative impact on our results of operations.

Amortization expense related to intangible assets was approximately \$9.8 million in the third quarter of fiscal 2020 and \$28.8 million in the first nine months of fiscal 2020. Amortization expense related to intangible assets was approximately \$10.0 million in the third quarter of fiscal 2019 and \$30.0 million in the first nine months of fiscal 2019.

3. Borrowings and Credit Agreements

The following table is a summary of our borrowings as of September 26, 2020 and December 28, 2019 (*in thousands*):

	September 26, 2020	December 28, 2019
Bank Term Loan under Credit Agreement	\$ 327,485	\$ 346,500
Bank Term Loans-Kita	3,655	3,830
Bank Term Loan-Xcerra	-	1,475
Construction Loan- Cohu GmbH	9,544	5,476
Lines of Credit	5,209	3,195
Total debt	345,893	360,476
Less: financing fees and discount	(6,225)	(7,441)
Less: current portion	(8,199)	(6,517)
Total long-term debt	\$ 331,469	\$ 346,518

Credit Agreement

On October 1, 2018, we entered into a Credit Agreement providing for a \$350.0 million Credit Facility and borrowed the full amount to finance a portion of the Xcerra acquisition. Loans under the 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 Credit Facility must be repaid on or before October 1, 2025. The loans under the Term Loan Facility bear interest, at Cohu's option, at a floating annual rate equal to LIBOR plus a margin of 3.00%. At September 26, 2020, the outstanding loan balance, net of discount and deferred financing costs, was \$321.3 million and \$2.3 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 28, 2019, the outstanding loan balance, net of discount and deferred financing costs, was \$339.1 million and \$2.3 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. As of September 26, 2020, the fair value of the debt was \$317.1 million. The measurement of the fair value of debt is based on the average of the bid and ask trading quotes as of September 26, 2020 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 September 26, 2020, we believe no such events of default have occurred.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

In August 2020, we repurchased \$16.4 million in principal of our Term Loan Facility for \$15.8 million in cash. We accounted for the repurchase as a debt extinguishment, which resulted in a gain of \$0.3 million reflected as gain on extinguishment of debt, in our condensed consolidated statement of operations, as well as a \$0.3 million reduction in debt discounts and deferred financing costs in our condensed consolidated balance sheets. After the repurchase, approximately \$327.5 million in principal of the Term Loan Facility remains outstanding as of September 26, 2020.

Kita Term Loans

As a result of our acquisition of Kita, we assumed term loans from a series of Japanese financial institutions primarily related to the expansion of Kita's facility in Osaka, Japan. The loans are collateralized by the facility and land, carry interest rates ranging from 0.05% to 0.40%, and expire at various dates through 2036. At September 26, 2020, the outstanding loan balance was \$3.7 million and \$0.3 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 28, 2019, the outstanding loan balance was \$3.8 million and \$0.4 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 September 26, 2020.

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

Xcerra Term Loan

As a result of our acquisition of Xcerra, we assumed a term loan related to the purchase of Xcerra's facility in Rosenheim, Germany. The loan was payable over 10 years at an annual interest rate of 2.35%. Principal plus accrued interest was due quarterly over the duration of the term loan ending in March 2024. At December 28, 2019, the outstanding loan balance was \$1.5 million and \$0.3 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. During the third quarter of 2020 the term loan was fully repaid using proceeds received from the sale of our facility located in Rosenheim, Germany.

Construction Loans

On July 26, 2019, one of our wholly owned subsidiaries located in Germany entered into two construction loans ("Loan Facilities") with a German financial institution providing total borrowing of €8.6 million. The Loan Facilities have 10-year and 15-year terms, which commenced on August 1, 2019, the initial draw-down date. Additionally, on June 16, 2020, a third construction loan with the same financial institution was entered into providing total borrowing of €1.5 million. This loan facility has a 10-year term, which has not commenced. The Loan Facilities are being utilized to finance the expansion of our facility in Kolbermoor, Germany, enabling us to combine the operations of multiple subsidiaries in one location as part of our previously announced strategic restructuring program. The Loan Facilities are secured by the land and the existing building on the site and bear interest at agreed upon rates based on separate €3.4 million, €5.2 million and €1.5 million facility amounts.

On August 1, 2019, the full €3.4 million was drawn under the first facility, which is payable over 10 years at an annual interest rate of 0.8%. Interest only payments are required to be made each quarter starting in September 2019 with principal and interest payments due each quarter starting in the month of December 2021. Principal repayments will be made over 8 years starting at the end of 2021.

Through September 26, 2020, we drew €4.8 million under the second facility, which is payable over 15 years at an annual interest rate of 1.05%. Interest only payments are required to be made each month starting in December 2019 with principal and interest payments due each month starting in the month of May 2020. Principal repayments will be made over 15 years starting at the end of May 2020. As of September 26, 2020, €0.4 million had not been drawn under the second facility and is expected to be drawn later in 2020.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

Through September 26, 2020, no amounts have been drawn under the third facility. Future amounts, if drawn, will be payable over 10 years at an annual interest rate of 1.2%. Interest payments are required to be made each month starting in the month following the first draw-down date with principal and interest payments due each month starting in the month of May 2021. Principal repayments will be made over 10 years starting at the end of May 2021.

At September 26, 2020 and December 28, 2019, total outstanding borrowings under the Loan Facilities was \$9.5 million and \$5.5 million with \$0.4 million and \$0.3 million of the total outstanding balance being presented as current installments of long-term debt in our condensed consolidated balance sheets based on contractual due dates, respectively. 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 September 26, 2020.

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 \$9.1 million. At September 26, 2020, total borrowings outstanding under the revolving lines of credit were \$5.2 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 Ismecca subsidiary has one available line of credit which provides it with borrowings of up to a total of 2.0 million Swiss Francs, a portion of which is reserved for tax guarantees. At September 26, 2020 and December 28, 2019 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. Relating to the facility consolidation actions, we notified certain impacted employees of a reduction in force program. 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. The Plan will reduce headcount, enable us to consolidate the facilities of our multiple operations located near Rosenheim, Germany, as well as transition certain manufacturing to other lower cost regions. The facility consolidation and reduction in force programs are being implemented as part of a comprehensive review of our operations and are intended to streamline and reduce our operating cost structure and capitalize on acquisition synergies.

As a result of the activities described above, we recognized total pretax charges of \$1.4 million and \$10.7 million for the first nine months ended September 26, 2020 and September 28, 2019, respectively, that are within the scope of ASC 420, *Exit or Disposal Cost Obligations* (“ASC 420”). All costs of the Integration Program were, and are expected to be, incurred by our Semiconductor Test & Inspection segment.

Costs associated with restructuring activities are presented in our condensed consolidated statements of operations 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 and impairments of fixed assets.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

The following table summarizes the activity within the restructuring related accounts for the Integration Program during the first nine months ended September 26, 2020 and September 28, 2019 (*in thousands*):

	Severance and Other Payroll	Other Exit Costs	Total
Balance, December 29, 2018	\$ 4,026	\$ -	\$ 4,026
Costs accrued	10,167	553	10,720
Amounts paid or charged	(9,251)	(553)	(9,804)
Impact of currency exchange	(137)	-	(137)
Balance, September 28, 2019	<u>\$ 4,805</u>	<u>\$ -</u>	<u>\$ 4,805</u>
Balance, December 28, 2019	\$ 1,236	\$ -	\$ 1,236
Costs accrued	287	1,113	1,400
Amounts paid or charged	(1,516)	(1,113)	(2,629)
Impact of currency exchange	-	-	-
Balance, September 26, 2020	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ 7</u>

At September 26, 2020, 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.

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

	September 26, 2020			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	
Foreign government security	<u>\$ 949</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 949</u>
	December 28, 2019			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	
Foreign government security	<u>\$ 904</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 904</u>

(1) As of September 26, 2020 and December 28, 2019, there were no investments in our portfolio in a loss position.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

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

	September 26, 2020		December 28, 2019	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 949	\$ 949	\$ -	\$ -
Due after one year through three years	-	-	904	904
	\$ 949	\$ 949	\$ 904	\$ 904

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.

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 September 26, 2020 using:			
	Level 1	Level 2	Level 3	Total estimated fair value
Cash	\$ 144,727	\$ -	\$ -	\$ 144,727
Money market funds	-	25,199	-	25,199
Foreign government security	-	949	-	949
	\$ 144,727	\$ 26,148	\$ -	\$ 170,875
	Fair value measurements at December 28, 2019 using:			
	Level 1	Level 2	Level 3	Total estimated fair value
Cash	\$ 147,523	\$ -	\$ -	\$ 147,523
Money market funds	-	7,671	-	7,671
Foreign government security	-	904	-	904
	\$ 147,523	\$ 8,575	\$ -	\$ 156,098

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 September 26, 2020, there were 1,664,421 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 first nine months of fiscal 2020 we did not grant any stock options and we issued 28,455 shares of our common stock on the exercise of options that were granted previously.

At September 26, 2020, we had 334,821 stock options exercisable and outstanding. These options had a weighted-average exercise price of \$10.02 per share, an aggregate intrinsic value of approximately \$2.3 million and the weighted average remaining contractual term was approximately 2.1 years.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

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 September 26, 2020.

In the first nine months of fiscal 2020 we awarded 778,903 RSUs, we issued 575,830 shares of our common stock on vesting of previously granted awards and 63,283 shares were forfeited. At September 26, 2020, we had 1,467,448 RSUs outstanding with an aggregate intrinsic value of approximately \$24.7 million and the weighted average remaining vesting period was approximately 1.5 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 25% 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 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 derived 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 first nine months of fiscal 2020, we awarded 200,249 PSUs, we issued 39,075 shares of our common stock on vesting of previously granted awards and 99,933 shares were forfeited. At September 26, 2020, we had 425,435 PSUs outstanding with an aggregate intrinsic value of approximately \$7.1 million and the weighted average remaining vesting period was approximately 1.8 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 first nine months of fiscal 2020, 113,610 shares of our common stock were sold to our employees under the ESPP leaving 797,727 shares available for future issuance.

7. Income Taxes

Ordinarily, interim tax provisions are calculated using the estimated effective tax rate (“ETR”) expected to be applicable for the full fiscal year. However, when a reliable estimate of the annual ETR cannot be made, the actual ETR for the year-to-date period may be the best estimate of the annual ETR. For the three and nine months ended September 26, 2020, we used the actual year-to-date ETR in computing our tax provision, as a reliable estimate of the 2020 annual ETR cannot be made, since relatively small changes in our projected income produce a significant variation in our ETR. The ETR on loss from continuing operations for the three months ended September 26, 2020 and September 28, 2019 was (20.2)% and (13.9)%, respectively, and (0.9)% and (0.3)% for the nine months ended September 26, 2020 and September 28, 2019, respectively. The tax provision on loss from continuing operations in 2020 and 2019 differs from the U.S. federal statutory rate primarily due to the lack of a tax benefit on our domestic losses as a result of our valuation allowance on deferred tax assets, foreign income taxed at different rates, withholding tax, taxes on unremitted earnings and changes to unrecognized tax benefits.

Our German subsidiaries income tax returns for 2015 to 2017, and our Philippines subsidiary income tax returns for 2017 and 2018 are currently under routine examination by tax authorities in their respective countries. We believe our financial statement accruals for income taxes are appropriate.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

During the three-month period ended September 26, 2020, our unrecognized tax benefits decreased by \$1.0 million due to settlement with the tax authority, offset by accrued interest. During the nine-month period ended September 26, 2020, our unrecognized tax benefits decreased by \$1.5 million due to settlement with the tax authority, expiration of the statute of limitations and foreign currency exchange rate changes, offset by accrued interest. Other than for settlement with the tax authority and foreign currency exchange rate changes, there was no material change to our unrecognized tax benefits and related accrued interest and penalties during the three and nine-month period ended September 26, 2020.

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law in March 2020. The CARES Act lifts certain deduction limitations originally imposed by the Tax Cuts and Jobs Act of 2017 (2017 Tax Act). Corporate taxpayers may carryback net operating losses (NOLs) originating during 2018 through 2020 for up to five years, which was not previously allowed under the 2017 Tax Act. The CARES Act also eliminates the 80% of taxable income limitations by allowing corporate entities to fully utilize NOL carryforwards to offset taxable income in 2018, 2019 or 2020. Taxpayers may generally deduct interest up to the sum of 50% of adjusted taxable income plus business interest income (30% limit under the 2017 Tax Act) for tax years beginning January 1, 2019 and 2020. The CARES Act allows taxpayers with alternative minimum tax credits to claim a refund in 2020 for the entire amount of the credits instead of recovering the credits through refunds over a period of years, as originally enacted by the 2017 Tax Act.

In addition, the CARES Act raises the corporate charitable deduction limit to 25% of taxable income and makes qualified improvement property generally eligible for 15-year cost-recovery and 100% bonus depreciation. The enactment of the CARES Act did not result in any material adjustments to our income tax provision for the three and nine-month period ended September 26, 2020, or to our net deferred tax assets as of September 26, 2020.

8. Segment and Geographic Information

The summary below presents our current segments, Semiconductor Test & Inspection and PCB Test, for the three- and nine-month periods ended September 26, 2020 and September 28, 2019.

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

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
<i>Net sales by segment:</i>				
Semiconductor Test & Inspection	\$ 137,225	\$ 132,820	\$ 396,666	\$ 407,092
PCB Test	13,422	10,678	36,986	34,226
Total consolidated net sales for reportable segments	<u>\$ 150,647</u>	<u>\$ 143,498</u>	<u>\$ 433,652</u>	<u>\$ 441,318</u>
<i>Segment profit (loss) before tax:</i>				
Semiconductor Test & Inspection	\$ (4,093)	\$ (2,929)	\$ (17,997)	\$ (32,373)
PCB Test	1,709	612	4,714	2,371
Profit (loss) for reportable segments	<u>(2,384)</u>	<u>(2,317)</u>	<u>(13,283)</u>	<u>(30,002)</u>
<i>Other unallocated amounts:</i>				
Corporate expenses	(460)	(2,076)	(4,759)	(7,365)
Interest expense	(3,021)	(5,000)	(10,904)	(15,789)
Interest income	42	190	210	603
Gain on extinguishment of debt	293	-	293	-
Loss from continuing operations before taxes	<u>\$ (5,530)</u>	<u>\$ (9,203)</u>	<u>\$ (28,443)</u>	<u>\$ (52,553)</u>

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

The following table summarizes our total assets by reportable business segment (*in thousands*):

	September 26, 2020	December 28, 2019
Semiconductor Test & Inspection	\$ 941,086	\$ 998,756
PCB Test	61,629	56,938
Total assets for reportable segments	1,002,715	1,055,694
Corporate, principally cash and investments	43,638	18,398
Discontinued operations	-	3,618
Total consolidated assets	<u>\$ 1,046,353</u>	<u>\$ 1,077,710</u>

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

9. Leases

We lease certain of our facilities, equipment and vehicles under non-cancelable operating and finance leases. Leases with initial terms with 12 months or less are not recorded on the condensed consolidated balance sheet, but we recognized those lease payments in the condensed consolidated statements of operations 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 37 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. Supplemental balance sheet information related to leases was as follows:

<i>(in thousands)</i>	Classification	September 26, 2020	December 28, 2019
Assets			
Operating lease assets	Operating lease right-of-use assets	\$ 30,099	\$ 33,269
Finance lease assets	Property, plant and equipment, net (1)	463	2,515
Total lease assets		<u>\$ 30,562</u>	<u>\$ 35,784</u>
Liabilities			
Current			
Operating	Other accrued liabilities	\$ 5,099	\$ 5,458
Finance	Other accrued liabilities	164	2,574
Noncurrent			
Operating	Long-term lease liabilities	26,293	28,877
Finance	Long-term lease liabilities	239	-
Total lease liabilities		<u>\$ 31,795</u>	<u>\$ 36,909</u>
Weighted-average remaining lease term (years)			
Operating leases		7.5	7.9
Finance leases		2.5	0.5
Weighted-average discount rate			
Operating leases		6.3%	6.3%
Finance leases		0.0%	4.5%

(1) Finance lease assets are recorded net of accumulated amortization of \$26,000 and \$0.1 million as of September 26, 2020 and December 28, 2019 respectively.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

The components of lease expense were as follows:

<i>(in thousands)</i>	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Operating leases	\$ 2,074	\$ 2,142	\$ 6,337	\$ 6,381
Variable lease expense	523	570	1,602	1,765
Short-term operating leases	15	80	53	224
Finance leases				
Amortization of leased assets	17	20	65	82
Interest on lease liabilities	-	29	57	117
Sublease income	(31)	(31)	(94)	(101)
Net lease cost	<u>\$ 2,598</u>	<u>\$ 2,810</u>	<u>\$ 8,020</u>	<u>\$ 8,468</u>

Future minimum lease payments at September 26, 2020, are as follows:

<i>(in thousands)</i>	Operating leases (1)	Finance leases	Total
2020	\$ 1,709	\$ 41	\$ 1,750
2021	6,733	164	6,897
2022	5,932	164	6,096
2023	5,158	34	5,192
2024	4,750	-	4,750
Thereafter	16,295	-	16,295
Total lease payments	<u>40,577</u>	<u>403</u>	<u>40,980</u>
Less: Interest	(9,185)	-	(9,185)
Present value of lease liabilities	<u>\$ 31,392</u>	<u>\$ 403</u>	<u>\$ 31,795</u>

(1) Excludes sublease income of \$0.1 million in 2021.

Supplemental cash flow information related to leases was as follows:

<i>(in thousands)</i>	Nine Months Ended	
	September 26, 2020	September 28, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 6,207	\$ 5,153
Operating cash flows from finance leases	\$ 57	\$ 109
Financing cash flows from finance leases	\$ 104	\$ 25
Leased assets obtained in exchange for new finance lease liabilities	\$ 468	\$ -
Leased assets obtained in exchange for new operating lease liabilities	\$ 1,830	\$ 39,815

10. Discontinued Operations

On October 1, 2018, we acquired a fixtures services business as part of Xcerra. In the fourth quarter of 2018, our management determined that this business did not align with our core business and was not a strategic fit within our organization. As a result, the fixtures services business has been marketed for sale since we acquired Xcerra on October 1, 2018 and it has been presented as discontinued operations. For financial statement purposes, the results of operations for this business have been segregated from those of continuing operations and are presented in our consolidated financial statements as discontinued operations for all periods presented.

During the fourth quarter of 2019, we recorded a charge of \$1.1 million to impair goodwill and purchased intangible assets associated with this operating segment as the estimated fair value less cost to sell exceeded the carrying value. In February 2020, we completed the sale of this business with an immaterial impact to the statement of operations for the three months ended March 28, 2020.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

Balance sheet information for our fixtures services business presented as discontinued operations is summarized as follows (*in thousands*):

	December 28, 2019
Assets:	
Cash and cash equivalents	\$ 736
Accounts receivable, net	1,316
Inventories	1,411
Other current assets	40
Total current assets	3,503
Property, plant and equipment, net	33
Other noncurrent assets	82
Total assets	\$ 3,618
Liabilities:	
Other accrued current liabilities	\$ 599
Total current liabilities	599
Noncurrent liabilities	24
Total liabilities	\$ 623

Operating results of our discontinued segment are summarized as follows (*in thousands*):

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net sales	\$ -	\$ 1,720	\$ 432	\$ 5,020
Operating income before income taxes	\$ -	173	\$ 11	400
Gain on sale of Fixtures business	-	-	35	-
Income before taxes	-	173	46	400
Income tax provision	-	19	4	58
Income, net of tax	\$ -	\$ 154	\$ 42	\$ 342

11. 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.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
September 26, 2020

12. 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		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Balance at beginning of period	\$ 5,996	\$ 6,852	\$ 6,155	\$ 8,014
Warranty expense accruals	911	1,137	3,846	4,695
Warranty payments	(1,169)	(2,071)	(4,263)	(6,791)
Balance at end of period	<u>\$ 5,738</u>	<u>\$ 5,918</u>	<u>\$ 5,738</u>	<u>\$ 5,918</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 \$0.1 million and \$0.3 million at September 26, 2020 and December 28, 2019, respectively.

Cohu, Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations
September 26, 2020

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, 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 2019 Annual Report on Form 10-K under the heading "Item 1A. Risk Factors". The forward-looking statements in this report speak only as of the time they are made, and do not necessarily reflect management's outlook at any other point in time. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or for any other reason, however, readers should carefully review the risk factors set forth in other reports or documents we file from time to time with the SEC after the date of this Quarterly Report.

OVERVIEW

Cohu is a leading supplier of semiconductor test and inspection handlers, micro-electromechanical system (MEMS) test modules, test contactors and thermal subsystems, semiconductor automated test equipment and bare-board printed circuit board (PCB) test systems 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 printed circuit boards and the products that incorporate them. Our consumable products are driven by the number of semiconductor devices and printed circuit boards 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.

Starting in 2019 and 2020, the global semiconductor market has been impacted by U.S. and China trade tensions which impacted our customers' ability to supply product to certain end users. Further, throughout 2020, customer test cell utilization was below levels that have historically triggered the need for additional capacity. During the first nine months of 2020 our net sales were negatively impacted by supply disruptions caused by the rapid and global spread of COVID-19 and weakness in the automotive market, and our consolidated net sales were \$433.7 million, a decrease of 1.7% from the corresponding period of the prior year. Demand for equipment used in testing mobility semiconductor applications, data centers and personal computers strengthened during the third quarter of 2020 driven by the launch and accelerated ramp of our RedDragon RF module for testing 5G, Wi-Fi 6 and Ultra-Wideband devices, and new customers for our Neon inspection platform. We also began to see improved demand from semiconductor, automotive and industrial customers and orders for PCB test equipment were at near record levels. Based on current business conditions, during the third quarter of 2020 we took action to reduce outstanding principal under our Term Loan B debt associated with the financing of the Xcerra acquisition in October 2018.

While we believe our total sales for the twelve months of 2020 will be negatively impacted by the global economic downturn caused by the COVID-19 pandemic our long-term market drivers and market strategy remain intact. We are encouraged by positive order momentum across our main market segments, and by customer traction with our new products going into 2021. We remain optimistic about the long-term prospects for our business due to the increasing ubiquity of semiconductors, the future 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 and industrial markets. We are focused on cross-selling opportunities and supporting our customers' deployment of 5G RF capabilities on next generation smartphones and growing our sales to semiconductor and electronics manufacturers and test subcontractors.

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 continues to spread throughout the United States and other countries across 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.

Cohu, Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations
September 26, 2020

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 product warranty, inventory reserves and allowance for bad debts, which impact gross margin or operating expenses;
- the recognition and measurement of current and deferred income tax assets and liabilities, unrecognized tax benefits and the valuation allowance on deferred tax assets, which impact our tax provision;
- the assessment of recoverability of long-lived assets including goodwill and other intangible assets, which primarily impacts gross margin or

- operating expenses if we are required to record impairments of assets or accelerate their depreciation or amortization; and
- the valuation and recognition of share-based compensation, which impacts gross margin, research and development expense, and selling, general and administrative expense.

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

Revenue Recognition: 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 September 26, 2020, we have \$8.7 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, 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. 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 consolidated balance sheet representing the difference between the receivable recorded and the inventory shipped.

[Table of Contents](#)

Cohu, Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations
September 26, 2020

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.

We adopted ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, on December 29, 2019 the first day of our fiscal 2020. The ASU required a cumulative-effect adjustment to the statement of financial position as of the date of adoption. Periods prior to the adoption that are presented for comparative purposes are not adjusted. Based on our analysis of historical and anticipated collections of trade receivables, the impact of adoption of Topic 326 was insignificant.

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 consolidated balance sheet. The deferred tax assets are reduced by a valuation allowance if, based upon all available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Establishing, reducing or increasing a valuation allowance in an accounting period generally results in an increase or decrease in tax expense in the statement of operations. We must make significant judgments to determine the provision for income taxes, deferred tax assets and liabilities, unrecognized tax benefits and any valuation allowance to be recorded against deferred tax assets. Our gross deferred tax asset balance as of September 26, 2020, was approximately \$141.0 million, with a valuation allowance of approximately \$93.6 million. Our deferred tax assets consist primarily of reserves and accruals that are not yet deductible for tax and tax credit and net operating loss carryforwards.

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. After the acquisition of Xcerra on October 1, 2018, we have determined that our four identified operating segments are: Test Handler Group (“THG”), Semiconductor Test Group (“STG”), Interface Solutions Group (“ISG”) and PCB Test Group (“PTG”). 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 two segments, Semiconductor Test & Inspection and PCB Test.

Goodwill and Indefinite-Lived Intangibles, Other Intangible Assets and Long-lived Assets: We evaluate goodwill and other indefinite-lived intangible assets, which are solely comprised of in-process research and development (“IPR&D”), 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 or asset, in the case of in-process research and development. 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.

[Table of Contents](#)

Cohu, Inc.
Management’s Discussion and Analysis of Financial Condition and Results of Operations
September 26, 2020

We conduct our annual impairment test as of October 1st of each year and determined that there was no impairment as of October 1, 2019, 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. While a decline in stock price and market capitalization is not specifically cited as an impairment indicator, a company’s stock price and market capitalization should be considered in determining whether it is more likely than not that the fair value of a reporting unit is less than its book value. The financial and credit market volatility caused by the COVID-19 pandemic directly impacts our fair value measurement through our stock price that we use to determine our market capitalization. During times of volatility, significant judgment must be applied to determine whether stock price changes are a short-term swing or a longer-term trend.

During the first quarter of 2020, the volatility in Cohu’s stock price, the global economic downturn and business interruptions associated with the COVID-19 pandemic led us to determine that there was a triggering event related to goodwill within all of our identified reporting units and our indefinite-lived intangible assets. We performed an interim assessment as of March 28, 2020 and determined that the fair values of our identified reporting units all exceeded their carrying values and we concluded there was no impairment of goodwill within our reporting units. Anticipated delays in customer adoption of certain new products under development as a result of the COVID-19 pandemic, changes to future project roadmaps and an increase in the discount rate used in the developing our interim fair value estimate resulted in a \$3.9 million impairment to IPR&D recorded during the first quarter as the carrying value exceeded fair value. During the third quarter of 2020, we became aware of additional delays in customer adoption of the same new products under development leading us to re-evaluate the fair value of these projects and we determined that the carrying value exceeded the fair value and, as a result, we recorded a \$7.3 million impairment to IPR&D. For the nine months ended September 26, 2020 total impairments recorded to IPR&D projects was \$11.2 million. We also considered changes in market volatility, the improvement in Cohu’s stock price and our actual and expected operating results as compared to the forecasts utilized during our first quarter test noting no events or conditions that suggested a triggering event had occurred related to our goodwill as of September 26, 2020.

The forecasts utilized in the interim impairment tests were based on known facts and circumstances. We evaluate and consider recent events and uncertain items, as well as related potential implications, as part of our annual and interim assessments and incorporate them into the analyses as appropriate. These facts and circumstances are subject to change and may not be the same as future analyses. In a future period, should we again determine that an interim goodwill and indefinite-lived intangible asset impairment review is required we may be required to book additional impairment charges which could have a significant negative impact on our results of operations.

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. We evaluated the expected undiscounted cashflows of these assets as of March 28, 2020 and determined there was no impairment. During the third quarter of 2020, no events or conditions occurred suggesting an impairment in our 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.

Cohu, Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations
September 26, 2020

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

As discussed herein, management determined that the fixtures services business, that was acquired as part of Xcerra, did not align with Cohu's long-term strategic plan and management divested this business in the first quarter of 2020. As a result, the assets of our fixtures business were considered "held for sale" and the operations of our fixtures business were considered "discontinued operations" for all periods presented. Unless otherwise indicated, the discussion below covers the comparative results from continuing operations.

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

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	(57.8)%	(58.9)%	(58.4)%	(60.2)%
Gross margin	42.2%	41.1%	41.6%	39.8%
Research and development	(13.6)%	(14.3)%	(14.6)%	(14.8)%
Selling, general and administrative	(20.9)%	(23.5)%	(22.0)%	(24.6)%
Amortization of purchased intangible assets	(6.5)%	(6.9)%	(6.7)%	(6.8)%
Restructuring charges	(0.3)%	(0.6)%	(0.3)%	(2.4)%
Impairment charges	(4.8)%	-	(2.6)%	-
Gain on sale of facilities	3.0%	-	1.0%	-
Loss from operations	(0.9)%	(4.2)%	(3.6)%	(8.8)%

Third Quarter of Fiscal 2020 Compared to Third Quarter of Fiscal 2019

Net Sales

Our consolidated net sales increased 5.0% to \$150.6 million in 2020, compared to \$143.5 million in 2019. Demand for equipment used in testing mobility semiconductors, automotive and industrial strengthened during the third quarter of 2020 driving higher sales as compared to the prior year.

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 the materials, assembly and test labor and overhead from operations. Our gross margin can fluctuate due to a number of factors, including, but not limited to, the mix and volume of products sold, product support costs, 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 42.2% in 2020 and 41.1% in 2019.

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 third quarter of 2020 and 2019, we recorded charges to cost of sales of \$3.6 million and \$1.5 million for excess and obsolete inventory, respectively.

During the third quarter of 2020 and 2019 we recorded, \$2.6 million and \$1.1 million of restructuring related inventory charges as part of the integration of Xcerra. 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 September 26, 2020, reductions in customer forecasts or continued modifications to products, as a result of our failure to meet specifications or other customer requirements, may result in additional charges to operations that could negatively impact our gross margin in future periods.

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

R&D expense consists primarily of salaries and related costs of employees engaged in ongoing research, product design and development activities, costs of engineering materials and supplies and professional consulting expenses. R&D expense was \$20.5 million in both 2020 and 2019 representing 13.6% and 14.3% of net sales, respectively.

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 \$31.3 million or 20.9% of net sales in 2020, compared to \$33.7 million or 23.5% in 2019. The decrease in SG&A expense in 2020 was primarily associated with a \$1.0 million reduction in depreciation expense related to a step-up in value of Xcerra assets and lower salaries, travel and other administrative spending as a result of cost control measures implemented in response to the economic uncertainty caused by the COVID-19 pandemic.

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 \$9.8 million and \$10.0 million in the third quarter of 2020 and 2019, respectively. The decrease in expense recorded during the current year was a result of fluctuations in exchange rates.

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 third quarter of 2020, we recorded restructuring charges, totaling \$0.4 million. In the third quarter of 2019 we recorded restructuring charges, exclusive of the inventory related charges described above, totaling \$0.8 million.

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

Impairment Charges

During the third quarter of 2020, we became aware of additional delays in customer adoption of certain new products under development that were acquired from Xcerra as a result of COVID-19 and product road map changes. This change in facts led us to re-evaluate the fair value of these projects and we determined that the carrying value exceeded the fair value and, as a result, we recorded a \$7.3 million impairment to IPR&D.

Gain on Sale of Facilities

As part of our previously announced Xcerra integration plan we implemented certain facility consolidation actions. During the third quarter of 2020, we completed the sale of our facility located in Rosenheim, Germany which resulted in a gain of \$4.5 million.

See Note 4, “Restructuring Charges” in Part I, Item 1 of this Form 10-Q for additional information with respect to our facility consolidation plan.

Interest Expense and Income

Interest expense was \$3.0 million in the third fiscal quarter of 2020 as compared to \$5.0 million in the corresponding period of 2019. The decrease in interest expense resulted from lower LIBOR rates as a result of global economic uncertainty caused by the COVID-19 pandemic.

Interest income was \$42,000 and \$0.2 million in the third fiscal quarter of 2020 and 2019, respectively. The decrease in interest income resulted from lower interest rates.

Income Taxes

Ordinarily, interim tax provisions are calculated using the estimated effective tax rate (“ETR”) expected to be applicable for the full fiscal year. However, when a reliable estimate of the annual ETR cannot be made, the actual ETR for the year-to-date period may be the best estimate of the annual ETR. For the three months ended September 26, 2020, we used the actual year-to-date ETR in computing our tax provision, as a reliable estimate of the 2020 annual ETR cannot be made, since relatively small changes in our projected income produce a significant variation in our ETR. The ETR on loss from continuing operations for the three months ended September 26, 2020 and September 28, 2019 was (20.2)% and (13.9)%, respectively. The tax provision on loss from continuing operations in 2020 and 2019 differs from the U.S. federal statutory rate primarily due to the lack of a tax benefit on our domestic losses as a result of our valuation allowance on deferred tax assets, foreign income taxed at different rates, withholding tax, taxes on unremitted earnings and changes to unrecognized tax benefits.

Cohu, Inc.
Management’s Discussion and Analysis of Financial Condition and Results of Operations
September 26, 2020

Our German subsidiaries income tax returns for 2015 to 2017, and our Philippines subsidiary income tax returns for 2017 and 2018 are currently under routine examination by tax authorities in their respective countries. We believe our financial statement accruals for income taxes are appropriate.

During the three-month period ended September 26, 2020, our unrecognized tax benefits decreased by \$1.0 million due to settlement with the tax authority, offset by accrued interest. Other than for foreign currency exchange rate changes, there was no material change to our unrecognized tax benefits and related accrued interest and penalties during the three-month period ended September 28, 2019.

Loss from Continuing Operations and Net Loss

As a result of the factors set forth above, both loss from continuing operations and net loss attributable to Cohu was \$6.6 million in 2020. Both loss from continuing operations and net loss attributable to Cohu was \$10.5 million in 2019.

First Nine Months of Fiscal 2020 Compared to First Nine Months of Fiscal 2019

Net Sales

Our consolidated net sales decreased 1.7% to \$433.7 million in 2020, compared to \$441.3 million in 2019. During the first nine months of 2020, our net sales were impacted by disruptions caused by the COVID-19 pandemic and movement control orders which resulted in supply disruptions and impacted our ability to ship product and further by reduced demand in the automotive segment.

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

Our gross margin, as a percentage of net sales, increased to 41.6% in 2020 from 39.8% in 2019. Our gross margin can fluctuate due to a number of factors, including, but not limited to, the mix of products sold, product support costs, inventory reserve adjustments, and utilization of manufacturing capacity. In the first nine months of fiscal 2020 and 2019 we recorded charges to cost of sales of approximately \$5.6 million and \$3.2 million for excess and obsolete inventory, respectively.

In 2019, our cost of sales was impacted by the amortization of inventory step-up related to fair value adjustments to inventory acquired in business combinations. During the first nine months of 2019, we amortized \$6.0 million of inventory step-up related to our acquisition of Xcerra. There was no inventory step-up amortized in the corresponding 2020.

As part of the integration and restructuring activities related to Xcerra, in the first nine months of fiscal 2020 we recorded \$4.3 million of inventory-related charges driven by the decision to end manufacturing of certain of our semiconductor test handlers as part of the integration of Xcerra. During the first nine months of 2019, our gross margin benefitted by \$0.3 million comprised of \$2.1 million from the reversal of liabilities related to supplier commitments recorded as part of these restructuring activities offset, in part, by \$1.8 million of additional inventory related charges related to ending the manufacturing of these products.

While we believe our reserves for excess and obsolete inventory and lower of cost or market concerns are adequate to cover known exposures at September 26, 2020, 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 results of operations and gross margin in future periods.

R&D Expense

R&D expense was \$63.4 million or 14.6% of net sales in 2020, compared to \$65.3 million or 14.8% in 2019. The decrease in R&D expense in 2020 is a result of lower salaries, travel and other cost control measures implemented in response to the economic uncertainty caused by the COVID-19 pandemic.

[Table of Contents](#)

Cohu, Inc. Management's Discussion and Analysis of Financial Condition and Results of Operations September 26, 2020

SG&A Expense

SG&A expense was \$95.7 million or 22.0% of net sales in 2020, compared to \$108.4 million or 24.6% in 2019. The decrease in SG&A expense in 2020 was primarily associated with a \$2.0 million reduction in depreciation expense related to a step-up in value of Xcerra assets, lower incentive compensation due to the decrease in business volume and lower salary, travel and other administrative spending as a result of cost control measures implemented in response to the economic uncertainty caused by the COVID-19 pandemic.

Amortization of Purchased Intangible Assets

Amortization of acquisition-related intangible assets was \$28.8 million and \$30.0 million for the first nine months of 2020 and 2019, respectively. The decrease in expense recorded during the current year was a result of fluctuations in exchange rates.

Restructuring Charges

In the first nine months of 2020, we recorded restructuring charges, exclusive of the \$4.3 million of inventory related charges described above, totaling \$1.4 million. In the first nine months of 2019 we recorded restructuring charges, exclusive of the inventory related benefits described above, totaling \$10.7 million.

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

Impairment Charges

During the first quarter of 2020, the volatility in Cohu's stock price, the global economic downturn and business interruptions associated with the COVID-19 pandemic led us to determine that there was a triggering event related to goodwill within all of our identified reporting units and our indefinite-lived intangible assets. We performed an interim assessment as of March 28, 2020 and determined that the fair values of our identified reporting units all exceeded their carrying values and we have concluded there were no impairment of goodwill within our reporting units. Anticipated delays in customer adoption of certain new products under development as a result of the COVID-19 pandemic, changes to future project roadmap and an increase in the discount rate used in the developing our interim fair value estimate resulted in a \$3.9 million impairment to IPR&D as the carrying value exceeded fair value. During the third quarter of 2020, we became aware of additional delays in customer adoption of certain new products under development that were acquired from Xcerra as a result of COVID-19 and product road map changes. This change in facts led us to re-evaluate the fair value of these projects and we determined that the carrying value exceeded the fair value and, as a result, we recorded a \$7.3 million impairment to IPR&D. For the nine months ended September 26, 2020 total impairments recorded to IPR&D projects was \$11.2 million.

Interest Expense and Income

Interest expense was \$10.9 million in the first nine months of 2020 as compared to \$15.8 million in the corresponding period of 2019. The decrease in interest expense resulted from lower LIBOR rates as a result of global economic uncertainty caused by the COVID-19 pandemic.

Interest income was \$0.2 million and \$0.6 million in the first nine months of 2020 and 2019, respectively. The decrease in interest income resulted from lower interest rates.

Income Taxes

The ETR on income or loss from continuing operations for the nine months ended September 26, 2020 and September 28, 2019, was (0.9)% and (0.3)%, respectively. The tax provision on loss from continuing operations in 2020 and 2019 differs from the U.S. federal statutory rate primarily due to foreign income taxed at different rates, changes in our deferred tax asset valuation allowance, withholding tax, taxes on unremitted earnings and interest related to unrecognized tax benefits.

During the nine-month period ended September 26, 2020, our unrecognized tax benefits decreased by \$1.5 million due to settlement with the relevant tax authority, expiration of the statute of limitations and foreign currency exchange rate changes, offset by accrued interest. There was no material change to our unrecognized tax benefits and related accrued interest and penalties during the nine-month period ended September 28, 2019.

[Table of Contents](#)

Cohu, Inc.
Management’s Discussion and Analysis of Financial Condition and Results of Operations
September 26, 2020

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law in March 2020. The CARES Act lifts certain deduction limitations originally imposed by the Tax Cuts and Jobs Act of 2017 (2017 Tax Act). Corporate taxpayers may carryback net operating losses (NOLs) originating during 2018 through 2020 for up to five years, which was not previously allowed under the 2017 Tax Act. The CARES Act also eliminates the 80% of taxable income limitations by allowing corporate entities to fully utilize NOL carryforwards to offset taxable income in 2018, 2019 or 2020. Taxpayers may generally deduct interest up to the sum of 50% of adjusted taxable income plus business interest income (30% limit under the 2017 Tax Act) for tax years beginning January 1, 2019 and 2020. The CARES Act allows taxpayers with alternative minimum tax credits to claim a refund in 2020 for the entire amount of the credits instead of recovering the credits through refunds over a period of years, as originally enacted by the 2017 Tax Act.

In addition, the CARES Act raises the corporate charitable deduction limit to 25% of taxable income and makes qualified improvement property generally eligible for 15-year cost-recovery and 100% bonus depreciation. The enactment of the CARES Act did not result in any material adjustments to our income tax provision for the nine months ended September 26, 2020, or to our net deferred tax assets as of September 26, 2020.

Loss from Continuing Operations and Net Loss

As a result of the factors set forth above in 2020, our loss from continuing operations was \$28.7 million and including the impact of discontinued operations our net loss attributable to Cohu was \$28.7 million. In 2019, our loss from continuing operations and net loss attributable to Cohu were \$52.7 million and \$52.4 million 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 September 26, 2020, \$98.1 million or 57.7% 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 September 26, 2020, our total indebtedness, net of discount and deferred financing costs, was \$339.7 million, which included \$321.3 million outstanding under the Term B Loan, \$3.7 million outstanding under Kita’s term loans, \$9.5 million outstanding under Cohu GmbH’s construction loan and \$5.2 million outstanding under Kita’s lines of credit. During the third quarter of 2020 we repaid the outstanding balance of Xcerra’s term loan as part of the sale of our Rosenheim facility.

Liquidity

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

<i>(in thousands)</i>	September 26, 2020	December 28, 2019	Increase	Percentage Change
Cash, cash equivalents and short-term investments	\$ 170,875	\$ 156,098	\$ 14,777	9.5%
Working capital	\$ 297,915	\$ 290,811	\$ 7,104	2.4%

Cash Flows

Operating Activities: Operating cash flows for the first nine months of fiscal 2020 consisted of our net loss, adjusted for non-cash expenses and changes in operating assets and liabilities. These adjustments include impairment charges, depreciation expense on property, plant and equipment, share-based compensation expense, amortization of intangible assets and deferred income taxes. Our net cash provided by operating activities in the first nine months of fiscal 2020 totaled \$28.0 million. Net cash provided by operating activities was impacted by changes in current assets and liabilities and included decreases in accounts receivable of \$13.0 million, accounts payable of \$3.5 million, accrued compensation, warranty and other liabilities of \$2.6 million, other current assets of \$2.2 million, income taxes payable of \$1.2 million, customer advances of \$1.0 million and increases in inventory of \$11.4 million and deferred profit of \$4.2 million. Accounts receivable and accounts payable balances decreased as a result of the timing of cash collections from customers and payments made by us to our suppliers. Accrued compensation, warranty and other liabilities decreased due to payments of incentive compensation related to the prior year, lower accruals for incentive compensation and warranty due to business conditions in 2020, the payment of accrued interest related to our Term B loan and a payment of \$1.5 million for contingent consideration associated with our acquisition of Kita Manufacturing Ltd. The reduction in other current assets due to sale of facilities previously held for sale and reduction of income tax receivables from prior periods. The decrease in income taxes payable is driven by income tax payments and lower taxable income in 2020. Fulfillment of customer equipment orders during 2020 has resulted in

the decrease in customer advances. The increase in inventory is driven by purchases from suppliers made to fulfill anticipated future shipments and our deferred profit increased as a result of revenue deferrals in accordance with our revenue recognition policy.

[Table of Contents](#)

Cohu, Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations
September 26, 2020

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 provided by investing activities in the first nine months of fiscal 2020 totaled \$6.4 million. Additions to property, plant and equipment of \$13.6 million were made to support the operating and development activities of our business activities of our Semiconductor Test & Inspection segment. During the first nine months of fiscal 2020 we received net proceeds of \$3.0 million from the sale of our fixtures services business and \$17.0 million related to the sale of fixed assets and our facilities in Rosenheim Germany and Penang Malaysia as part of our Xcerra integration and facility consolidation program.

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, cash used to pay dividends to our stockholders and borrowings, net of repayments of debt. We issue restricted stock units and stock options and maintain an employee stock purchase plan as components of our overall employee compensation. In the first nine months of fiscal 2020, 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 \$0.2 million. We paid dividends totaling \$5.0 million, or \$0.06 per common share. As a result of the COVID-19 pandemic, we are proactively managing cash flow and Cohu's Board of Directors authorized suspending our quarterly cash dividend indefinitely, as of May 5, 2020. The dividend suspension will result in approximately \$10 million of annualized cash savings, which we expect to utilize for deleveraging and strengthening our balance sheet. Repayments of short-term borrowings and long-term debt during the first nine months of fiscal 2020 totaled \$20.2 million and included a \$15.8 million repurchase and retirement of our Term Loan B debt during the third quarter of 2020 made to deleverage our balance sheet. We received proceeds under a revolving line of credit and construction loan totaling \$5.9 million. Proceeds from the construction loan are being used to expand our facility in Kolbermoor, Germany, enabling us to consolidate the German operations of our Semiconductor Test & Inspection segment in 2020. Proceeds from the revolving line of credit are being used to increase the manufacturing capacity of our Semiconductor Test & Inspection segment facility located in Osaka, Japan.

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 Credit Facility and borrowed the full amount to finance a portion of the Xcerra acquisition. Loans under the 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 Credit Facility must be repaid on or before October 1, 2025. The loans under the Term Loan Facility bear interest, at Cohu's option, at a floating annual rate equal to LIBOR plus a margin of 3.00%. At September 26, 2020, the outstanding loan balance, net of discount and deferred financing costs, was \$321.3 million and \$2.3 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 28, 2019, the outstanding loan balance, net of discount and deferred financing costs, was \$339.1 million and \$2.3 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 September 26, 2020, we believe no such events of default have occurred.

In August 2020, we repurchased \$16.4 million in principal of our Term Loan Facility for \$15.8 million in cash. We accounted for the repurchase as a debt extinguishment, which resulted in a gain of \$0.3 million reflected in other expense, net, in our condensed consolidated statement of operations, as well as a \$0.3 million reduction in debt discounts and deferred financing costs in our condensed consolidated balance sheets. After the repurchase, approximately \$327.5 million in principal of the Term Loan Facility remains outstanding as of September 26, 2020.

[Table of Contents](#)

Cohu, Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations
September 26, 2020

Kita Term Loans

As a result of our acquisition of Kita, we assumed term loans from a series of Japanese financial institutions primarily related to the expansion of Kita's facility in Osaka, Japan. The loans are collateralized by the facility and land, carry interest rates ranging from 0.05% to 0.40%, and expire at various dates through 2036. At September 26, 2020, the outstanding loan balance was \$3.7 million and \$0.3 million of the outstanding balance is presented as current installments of long-term debt in our consolidated balance sheets. At December 28, 2019, the outstanding loan balance was \$3.8 million and \$0.4 million of the outstanding balance is presented as current installments of long-term debt in our 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.

Xcerra Term Loan

As a result of our acquisition of Xcerra, we assumed a term loan related to the purchase of Xcerra's facility in Rosenheim, Germany. The loan was payable over 10 years at an annual interest rate of 2.35%. Principal plus accrued interest was due quarterly over the duration of the term loan ending in March 2024. At December 28, 2019, the outstanding loan balance was \$1.5 million and \$0.3 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. During the third quarter of 2020 the term loan was fully repaid using proceeds received from the sale of our facility located in Rosenheim, Germany.

Construction Loans

On July 26, 2019, one of our wholly owned subsidiaries located in Germany entered into two construction loans ("Loan Facilities") with a German financial institution providing total borrowing of €8.6 million. The Loan Facilities have 10-year and 15-year terms, which commenced on August 1, 2019, the initial draw-down date. Additionally, on June 16, 2020, a third construction loan with the same financial institution was entered into providing total borrowing of €1.5 million. This loan facility has a 10-year term, which has not commenced. The Loan Facilities are being utilized to finance the expansion of our facility in Kolbermoor, Germany, enabling us to combine the operations of multiple subsidiaries in one location as part of our previously announced strategic restructuring program. The Loan Facilities are secured by the land and the existing building on the site and bear interest at agreed upon rates based on separate €3.4 million, €5.2 million and €1.5 million facility amounts.

On August 1, 2019, the full €3.4 million was drawn under the first facility, which is payable over 10 years at an annual interest rate of 0.8%. Interest only payments are required to be made each quarter starting in September 2019 with principal and interest payments due each quarter starting in the month of December 2021. Principal repayments will be made over 8 years starting at the end of 2021.

Through September 26, 2020, we drew €4.8 million under the second facility, which is payable over 15 years at an annual interest rate of 1.05%. Interest only payments are required to be made each month starting in December 2019 with principal and interest payments due each month starting in the month of May 2020. Principal repayments will be made over 15 years starting at the end of May 2020. As of September 26, 2020, €0.4 million had not been drawn under the second facility and is expected to be drawn later in 2020.

Through September 26, 2020, no amounts have been drawn under the third facility. Future amounts, if drawn, will be payable over 10 years at an annual interest rate of 1.2%. Interest payments are required to be made each month starting in the month following the first draw-down date with principal and interest payments due each month starting in the month of May 2021. Principal repayments will be made over 10 years starting at the end of May 2021.

At September 26, 2020 and December 28, 2019, total outstanding borrowings under the Loan Facilities was \$9.5 million and \$5.5 million with \$0.4 million and \$0.3 million of the total outstanding balance being presented as current installments of long-term debt in our consolidated balance sheets based on contractual due dates, respectively. The loans are denominated in Euros and, as a result, amounts disclosed herein will fluctuate because of changes in currency exchange rates.

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 \$9.1 million. At September 26, 2020, total borrowings outstanding under the revolving lines of credit were \$5.2 million. As these credit facility agreements renew monthly, they have been included in short-term borrowings in our condensed consolidated balance sheets.

[Table of Contents](#)

Cohu, Inc. Management's Discussion and Analysis of Financial Condition and Results of Operations September 26, 2020

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 Ismeca subsidiary has one available line of credit which provides it with borrowings of up to a total of 2.0 million Swiss Francs, a portion of which is reserved for tax guarantees. At September 26, 2020 and December 28, 2019, 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 September 26, 2020, \$0.3 million was outstanding under standby letters of credit and bank guarantees.

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. 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 28, 2019.

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 September 26, 2020, \$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 September 26, 2020, our investment portfolio included short-term fixed-income investment securities with a fair value of approximately \$0.9 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 September 26, 2020, we held no investments with loss positions.

[Table of Contents](#)

Cohu, Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations
September 26, 2020

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 September 26, 2020, we have approximately \$321.3 million of long-term debt under a 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 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 September 26, 2020, the interest rate in effect on these borrowings was 3.2%. In July 2017, the UK's Financial Conduct Authority, which regulates the LIBOR, announced that it intends to phase out LIBOR by the end of 2021. After 2021, it is unclear whether banks will continue to provide LIBOR submissions to the administrator of LIBOR, and no consensus currently exists as to what benchmark rate or rates may become accepted alternatives to LIBOR. In the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee that has been convened by the Federal Reserve Board and the Federal Reserve Bank of New York. 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 B Loan 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.

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 September 26, 2020, compared to December 28, 2019, our stockholders' equity decreased by \$12.7 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 September 26, 2020 would result in an approximate \$37.1 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 September 26, 2020 would result in an approximate \$37.1 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 September 26, 2020, 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.

[Table of Contents](#)

Part II OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth above under Note 11 contained in the “Notes to Unaudited Condensed Consolidated Financial Statements” of this Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors.

The risks described below are not the only risks we face. Additional risks that we are unaware of, or that we currently believe are not material, may also impair our business operations. The risk factors set forth below with an asterisk () next to the title contain substantive changes to the description of the risk factors associated with our business as previously disclosed in Item 1A to our 2019 Annual Report on Form 10-K. If any of the events or circumstances described in the following risks occur, our business, financial condition, results of operations or cash flows could suffer, and the trading price of our common stock and our market capitalization could decline.*

**** The ongoing global COVID-19 pandemic has adversely affected, and is continuing to adversely affect, our business, financial condition and results of operations.***

The ongoing global COVID-19 pandemic has adversely affected, and is continuing to adversely affect, our business, financial condition and results of operations. As the COVID-19 virus has spread rapidly and globally, and has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders, and shutdowns, including in many of the jurisdictions where we operate. These measures have adversely impacted, and are continuing to adversely impact, our workforce and operations, the operations of our customers, and those of our respective vendors and suppliers. We have significant operations in the U.S., Germany, Switzerland, Malaysia, Japan and the Philippines, and each of these countries has been significantly affected by the COVID-19 outbreak. For instance, our primary manufacturing facilities in Malaysia and the Philippines were partially operating between March and May 2020 due to government-mandated movement control orders. Any resurgence in cases in these locales could cause operations to be immediately disrupted again. More recently, rapidly increasing COVID-19 cases in October 2020 in countries where Cohu’s principal facilities are located, including the United States, the Philippines, Malaysia, Switzerland and Germany, poses significant risk of further business disruption. In particular, in October 2020, the Malaysia government reinstated movement control orders, and such orders have already begun to cause Malaysia-based supplier delays and may cause other supply chain disruptions, shipping delays and potential closures of our Malaysia facility or supplier facilities.

Although we believe that Cohu qualifies as an “essential business” in the jurisdictions in which we operate, our business has been, and is continuing to be, adversely impacted by evolving and extended public health requirements around the world, government-mandated facility shutdowns, import/export, shipping and logistics disruptions and delays, other supply chain and distribution constraints or delays, rapid changes to business, political or regulatory conditions affecting the semiconductor equipment industry and the overall global economy, availability of employees and lost employee productivity, risks associated with temporarily housing employees in our Malaysia and Philippines factories, remote working IT and increased cybersecurity risks, increased internal control risks over financial reporting as key finance staff work remotely, delayed product development programs, customers’ canceling, pushing out orders or refusal to accept product deliveries, delayed collection of receivables, other actions of our customers, suppliers and competitors which may be sudden and inconsistent with our expectations, higher shipping and logistics costs, higher component costs, manufacturing capacity limitations, additional credit rating agency downgrades could occur which would increase the company’s cost of raising capital, and potential additional impairment of goodwill or other intangible assets or inventory write-downs due to lower product demand may become necessary.

Any of the foregoing COVID-19 driven impacts may have a material adverse effect on our financial condition and results of operations. Also, due to market uncertainties, we previously withdrew first quarter 2020 guidance and, while we have again provided quarterly guidance, we may withdraw future guidance again in the future or may not provide financial guidance at all. To the extent the COVID-19 pandemic continues to adversely affect the global economy, and/or adversely affects our business, operations or financial performance, it may also have the effect of increasing the likelihood and/or magnitude of other risks described in the “Risk Factors” set forth in this Item 1A. Further, the COVID-19 pandemic may also abruptly affect our business, operations or financial performance in ways that are not presently known to us or that we currently do not expect to present significant risks to our business, operations or financial performance. We are continuing to closely monitor the pandemic but cannot predict its future course or impacts.

[Table of Contents](#)

**** Cohu cannot provide any assurance that it will reinstate the payment of any regular cash dividends in the future.***

On May 5, 2020, we announced that, given the ongoing impact and uncertainty of the COVID-19 pandemic on semiconductor test and inspection demand, our Board of Directors has suspended Cohu’s quarterly cash dividend, which results in approximately \$10 million of annualized cash savings. Cohu may not reinstate the payment of any cash dividends in the future for various reasons, including the following:

- given weak market conditions in 2020 and the ongoing COVID-19 global pandemic with significant market volatility throughout 2020, we may continue to determine actions to preserve cash;
- Cohu may continue to prioritize its cash toward paying down its debt, for product development projects, acquisitions and/or making other strategic investments;
- Cohu may continue to desire to retain cash to maintain or improve its credit ratings;
- as a result of the Merger and the issuance of shares of Cohu Common Stock in connection with the Merger, the total amount of cash required for Cohu to pay dividends increased;

- Cohu’s credit agreement restricts payments of dividends under certain circumstances;
- Cohu may not have enough cash to pay any dividends due to Cohu’s operational cash requirements, capital spending plans, debt service obligations, cash flow or financial position;
- decisions on whether, when and in which amounts to make any future distributions will remain at all times entirely at the discretion of the Cohu Board, which reserves the right to change Cohu’s dividend practices at any time with no prior notice; and
- the amount of dividends that Cohu’s subsidiaries may distribute to Cohu may be subject to restrictions imposed by state or foreign law, restrictions that may be imposed by state or foreign regulators, and restrictions imposed by the terms of any current or future indebtedness that these subsidiaries may incur.

We may fail to realize all of the anticipated benefits of the Xcerra acquisition or those benefits may take longer to realize than expected.

Cohu acquired Xcerra on October 1, 2018, at which time Xcerra became a wholly owned subsidiary of Cohu (the “Merger”). Our ability to realize the anticipated benefits and synergies of the Merger depends, to a large extent, on our ability to successfully integrate Xcerra, which has been and continues to be a complex, costly and time-consuming process. The integration process may disrupt our business and, if implemented ineffectively or delayed, could restrict the realization of the full expected benefits, and could ultimately be unsuccessful. The failure to meet the challenges involved in the integration process and to realize the anticipated benefits of the Merger in the time frame we initially anticipated could cause an interruption of, or a loss of momentum in, our operations and could adversely affect our business, financial condition and results of operations.

In addition, the integration of Xcerra may result in material unanticipated problems, expenses, liabilities, competitive responses, and loss of employees, customers, suppliers and other business relationships. Additional integration challenges and risks include:

- difficulties entering new markets or manufacturing in new geographies where Cohu has no or limited direct prior experience;
- such a new market for Cohu, the automated test equipment market, is intensely competitive with entrenched large competitors who are much larger than Cohu;
- successfully managing relationships with Cohu and Xcerra’s combined supplier and customer base;
- coordinating and integrating independent research and development and engineering teams across technologies and product platforms to enhance product development while reducing costs;
- coordinating sales and marketing efforts to effectively position the combined company’s capabilities and the direction of product development;
- difficulties and significant costs in integrating the systems and processes of two companies with complex operations including multiple manufacturing sites;
- difficulties and potential loss of sales in transitioning customers from certain Xcerra products that are being discontinued and to Cohu products;
- product manufacturing disruptions and delays as we consolidate certain manufacturing sites;
- difficulties and errors that may occur in integrating disparate accounting staffs, processes and systems;
- the increased scale and complexity of Cohu’s operations resulting from the Merger;
- Cohu’s ability to achieve the targeted cost synergies within the expected time frame, and significant costs of integration and restructuring;
- retaining key employees of Cohu and Xcerra;
- obligations that Cohu will have to counterparties of Xcerra that arise as a result of the change in control of Xcerra;
- legal impediments, delays and significant costs to reduce headcounts in various geographies;
- the impact of litigation and potential liabilities we may be inheriting from Xcerra; and
- diversion of management’s attention to integration matters.

[Table of Contents](#)

Many of these factors are outside of our control and any one of them could result in increased costs, decreases in the amount of expected revenues, and diversion of management’s time and energy, which could adversely affect our business, financial condition, and results of operations and result in us becoming subject to litigation. In addition, even if Xcerra is integrated successfully, the full anticipated benefits of the Merger may not be realized, including the synergies, cost savings or sales or growth opportunities that are anticipated. These benefits may not be achieved within the anticipated time frame, or at all. Cohu incurred \$16.2 million of restructuring charges for the Xcerra acquisition during fiscal year 2019 and additional restructuring charges and other costs are expected to be incurred in the integration process. All of these factors could cause reductions in our earnings per share and decrease or delay the expected accretive effect of the Merger. As a result, it cannot be assured that the Merger will result in the realization of the full or any anticipated benefits.

We may underperform relative to our expectations.

Our business and financial performance, especially with our acquisition of Xcerra, are subject to certain risks and uncertainties. We may not be able to maintain the growth rate, levels of revenue, earnings, or operating efficiency that we and Xcerra have achieved or might achieve separately and, in fact, due to weak market conditions in 2019, sales and earnings from the Xcerra-related business declined significantly on a year-over-year basis. Any further underperformance could have a material adverse effect on our financial condition and results of operations.

Uncertainties underlie Cohu’s expectation that, relative to Cohu on a stand-alone basis, the Merger will be accretive to Cohu’s earnings per share.

Cohu currently believes that, relative to Cohu on a stand-alone basis, the Merger will be accretive to Cohu’s earnings per share upon completion of the ongoing restructuring and integration and after the recovery of market conditions. However, Cohu cannot give any assurance that the Merger will actually be accretive to Cohu’s earnings per share.

**** The use of cash and incurrence of substantial indebtedness in connection with the financing of the Merger may have an adverse impact on Cohu’s liquidity, limit Cohu’s flexibility in responding to other business opportunities and increase Cohu’s vulnerability to adverse economic and industry conditions.***

The Merger was financed in part by using Cohu’s and Xcerra’s cash on hand and the incurrence of indebtedness. In connection with the Merger, Cohu entered into a term loan facility, with an aggregate principal amount of \$350.0 million (the “Debt Financing” or “Credit Agreement”). Cohu used \$160.5 million of Cohu’s and Xcerra’s cash on hand to complete the Merger. Total cash, cash equivalents and short-term investments as of September 26, 2020 were approximately \$170.9 million. The use of cash on hand and indebtedness to finance the acquisition reduced Cohu’s liquidity and has caused Cohu to place more reliance on cash generated from operations to pay principal and interest on Cohu’s debt, thereby reducing the availability of Cohu’s cash flow

for working capital, dividend and capital expenditure needs or to pursue other potential strategic plans. During third quarter 2020, Cohu took action to reduce outstanding principal under its Debt Financing; however, Cohu gives no future assurance as to if, when or how much any subsequent voluntary principal reductions may be.

Our Credit Agreement contains various representations and negative covenants that limit, subject to certain exceptions and baskets, our ability and/or our subsidiaries' ability to, among other things:

- incur or assume liens or additional debt or provide guarantees in respect of obligations of other persons;
- issue redeemable stock and preferred stock;
- pay cash dividends or make distributions on capital stock, repurchase, redeem or make payments on capital stock;
- enter into rate, commodity, equity or currency swap, hedging or other similar transactions;
- make loans, investments or acquisitions;
- enter into agreements that restrict distributions from our subsidiaries;
- create or permit restrictions on the ability of our subsidiaries to pay dividends or make other distributions to us or to guarantee our debt, limit our or any of our subsidiaries' ability to create liens, or that require the grant of a lien to secure an obligation if a lien is granted to secure another obligation;
- sell assets and capital stock of our subsidiaries;
- enter into certain transactions with affiliates;
- sell, transfer, license, lease or dispose of our or our subsidiaries' assets; and
- dissolve, liquidate, consolidate or merge with or into, or sell substantially all the assets of us and our subsidiaries, taken as a whole, to, another person.

The restrictions contained in our Credit Agreement could adversely affect our ability to:

- finance our operations;
- make needed capital expenditures;
- make strategic acquisitions or investments or enter into alliances;
- withstand a future downturn in our business or the economy in general;
- engage in business activities, including future opportunities, that may be in our interest; and
- plan for or react to market conditions or otherwise execute our business strategies.

[Table of Contents](#)

A breach of any of these negative covenants could result in a default under the Credit Agreement. Further, additional indebtedness that we incur in the future may subject us to further covenants. Our failure to comply with these covenants could result in a default under the agreements governing the relevant indebtedness. The lender may accelerate the payment terms of the Credit Agreement 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. Any event that could require us to repay debt prior to its due date could have a material adverse impact on our financial condition and results of operations.

Our ability to comply with covenants contained in such debt agreements may be affected by events beyond our control, including prevailing economic, financial and industry conditions. Even if we are able to comply with all of the applicable covenants, the restrictions on our ability to manage our business in our sole discretion could adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities that we believe would be beneficial to us. In addition, our obligations under the Credit Agreement are secured, on a first-priority basis, and such security interests could be enforced in the event of default by the collateral agent for the Credit Agreement.

Changes in the method of determining the London Interbank Offered Rate (LIBOR), or the replacement of LIBOR with an alternative reference rate, may adversely affect interest rates.

Interest rates under our Credit Agreement are calculated using LIBOR. On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021 and it is unclear whether new methods of calculating LIBOR will be established. If LIBOR ceases to exist after 2021, a comparable or successor reference rate must be negotiated and agreed among the Administrative Agent, the Company and certain lenders under the Credit Agreement. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, is considering replacing U.S. dollar LIBOR with a newly created index, calculated based on repurchase agreements backed by treasury securities. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom, the United States or elsewhere. To the extent these interest rates increase, our interest expense will increase, which could adversely affect our financial condition, operating results and cash flows.

Cohu has total consolidated debt of \$339.7 million and because of such high debt levels we may not be able to service our debt obligations in accordance with their terms; the Tax Cuts and Jobs Act severely limits the deductibility of interest expense.

Cohu's ability to meet its expense and debt service obligations contained in the Debt Financing agreements will depend on Cohu's future performance, which will be affected by financial, business, economic and other factors, including potential changes in industry conditions, industry supply and demand balance, customer preferences, the success of Cohu's products, pressure from competitors, and Cohu's ability to successfully integrate Xcerra in a timely manner. In addition, Cohu is subject to interest rate risks, and continuing increases in interest rates will increase Cohu's debt service obligations. Should combined Cohu and Xcerra revenues continue to decline after the Merger (on a year-over-year basis), as they did in fiscal year 2019, Cohu may not be able to generate sufficient cash flow to pay its debt service obligations when due. If Cohu is unable to meet its debt service obligations after the Merger or should Cohu fail to comply with the covenants contained in the agreements governing its indebtedness, Cohu may be required to refinance all or part of its debt, sell important strategic assets at unfavorable prices, incur additional indebtedness or issue Cohu Common Stock or other equity securities. Cohu may not be able to, at any given time, refinance its debt, sell assets, incur additional indebtedness or issue equity securities on terms acceptable to Cohu, in amounts sufficient to meet Cohu's needs or at all. If Cohu is able to raise additional funds through the issuance of equity or equity-linked securities, such issuance would also result in dilution to Cohu's stockholders. Cohu's inability to service its debt obligations or refinance its debt could have a material adverse effect on its business, financial conditions or operating results after the Merger. In addition, Cohu's debt obligations may limit its ability to make

required investments in capacity, technology or other areas of its business, which could have a material adverse effect on its business, financial conditions or operating results. Furthermore, the Tax Cuts and Jobs Act limits the deductibility of interest expense in a given year to 30% of adjusted taxable income, as defined; the CARES Act temporarily increased this limitation to 50% for 2019 and 2020. This resulted in the inability of Cohu to utilize a substantial portion of its interest expense deductions in 2018, 2019 and 2020 and may impact our ability to utilize future deductions. However, the Act permits indefinite carryforward of any disallowed business interest, subject to Internal Revenue Code section 382 limitations on utilization.

[Table of Contents](#)

The issuance of shares of our common stock in connection with the Merger, and any future offerings of securities by us, will dilute our shareholders' ownership interest in the company.

The Merger was financed in part by the issuance of additional shares of our common stock to shareholders of Xcerra, comprised approximately 11.8 million shares of common stock, or approximately 29% of our issued and outstanding shares of common stock immediately after completing the Merger. These issuances of additional shares of our common stock have diluted shareholders' ownership interest in our company, and shareholders now have a proportionately reduced ownership and voting interest in our company as a result of completion of the Merger.

**** Because a significant portion of Cohu's total assets are represented by goodwill, which is subject to mandatory impairment evaluation, and other intangibles, Cohu could be required to write off some or all of this goodwill and other intangibles, which may adversely affect the combined company's financial condition and results of operations.***

Cohu has accounted for the acquisition of Xcerra using the purchase method of accounting. A portion of the purchase price for this business was allocated to identifiable tangible and intangible assets and assumed liabilities based on estimated fair values at the date of consummation of the merger. 46.2% of Cohu's total assets are comprised of goodwill and other intangibles, of which approximately \$244.3 million is allocated to goodwill. In accordance with the ASC 350, *Intangibles - Goodwill and Other*, goodwill and certain other intangible assets with indefinite useful lives are not amortized but are reviewed at least annually for impairment, or more frequently if there are indications of impairment. Significant declines in the price of Cohu's common stock, as we saw in third fiscal quarter 2019, could increase the risk of an impairment. All other intangible assets are subject to periodic amortization. Cohu evaluates the remaining useful lives of other intangibles each quarter to determine whether events and circumstances warrant a revision to the remaining period of amortization. If we are unable to realize the anticipated benefits of the Merger, when Cohu performs future impairment tests, it is possible that the carrying value of goodwill or other intangible assets could exceed their implied fair value and therefore would require adjustment. Such adjustment would result in a charge to operating income in that period. For example, in first quarter 2020, and again in third quarter 2020, Cohu recorded impairment charges of approximately \$3.9 million and \$7.3 million, respectively, to adjust IPR&D assets obtained in the acquisition of Xcerra to their current fair value. There can be no assurance that there will not be further adjustments for impairment in future periods.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results, and current and potential stockholders may lose confidence in our financial reporting.

We are required by the Securities and Exchange Commission to establish and maintain adequate internal control over financial reporting that provides reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. We are likewise required, on a quarterly basis, to evaluate the effectiveness of our internal controls and to disclose any changes and material weaknesses in those internal controls.

Completing the Merger has significantly increased the size, number of employees, global operations and complexity of Cohu's business. Although we believe that we have adequate internal controls in place at this time, we cannot be certain that, with significantly greater global complexity, we will be able to maintain adequate internal control over our financial reporting in future periods. Any failure to maintain such internal controls could adversely impact our ability to report our financial results on a timely and accurate basis. If our financial statements are not accurate, investors may not have a complete understanding of our operations. Likewise, if our financial statements are not filed on a timely basis as required by the Securities and Exchange Commission and Nasdaq Global Select Market, we could face severe consequences from those authorities. In either case, there could result a material adverse effect on our business. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

Cohu has discovered and may discover additional liabilities or deficiencies associated with Xcerra that were not identified in advance.

We may discover liabilities, product return issues or deficiencies associated with Xcerra that were not identified in advance, which may result in significant unanticipated costs, including potential accounting and tax charges. The effectiveness of our due diligence review and our ability to evaluate the results of such due diligence are ultimately dependent upon the accuracy and completeness of statements and disclosures made or actions taken by Xcerra, as well as the limited amount of time in which the acquisition was executed. For example, since closing the Merger, we have incurred material product returns and associated expenses and were required to make material customer pricing concessions in order to resolve various Xcerra product issues. Any further unexpected liabilities, product return issues or deficiencies associated with Xcerra could have a material adverse effect on our financial condition and results of operations.

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

As part of our business strategy, we will continue to regularly evaluate investments in, or acquisitions of, complementary businesses, joint ventures, services and technologies, and we expect that periodically we will continue to make such investments and acquisitions in the future. Acquisitions and investments involve numerous risks, including, but not limited to:

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

[Table of Contents](#)

- increasing the scope, geographic diversity and complexity of our business;
- the cost and risk of having to potentially develop new and unfamiliar sales channels for acquired businesses;
- diversion of management's attention from other operational matters;
- the potential loss of key employees, customers or suppliers of Cohu or acquired businesses;

- lack of synergy, or the inability to realize expected synergies, resulting from the acquisition;
- potential unknown liabilities associated with the acquired businesses;
- failure to commercialize purchased technology;
- the impairment of acquired intangible assets and goodwill that could result in significant charges to operating results in future periods; and
- challenges caused by distance, language and cultural differences.

We may decide to finance future acquisitions and investments through a combination of borrowings, proceeds from equity or debt offerings and the use of cash, cash equivalents and short-term investments. If we finance acquisitions or investments by issuing equity-linked (such as convertible debt) or equity securities, our existing stockholders may be diluted which would likely affect the market price of our stock. For example, the Merger resulted in significant dilution wherein it was financed in part by the issuance of additional shares of our common stock to shareholders of Xcerra, comprised approximately 11.8 million shares of common stock, or approximately 29% of our issued and outstanding shares of common stock immediately after completing the Merger.

Mergers, acquisitions and investments are inherently risky and the inability to effectively manage these risks could materially and adversely affect our business, financial condition and results of operations. At December 28, 2019, we had goodwill and net purchased intangible assets balances of \$238.7 million and \$275.0 million, respectively.

Further, as a strategy to pay down long-term debt, we expect to continue to evaluate and pursue divestitures of assets that management determines to be non-core to our overall business strategy. Any such divestitures may distract Cohu's management team, disrupt employees, may not yield attractive valuations, may incur material restructuring and transaction expenses and tax obligations, and may otherwise be unsuccessful.

We are making investments in new products to enter new markets, which may adversely affect our operating results; these investments may not be successful.

Given the highly competitive and rapidly evolving technology environment in which we operate, we believe it is important to develop new product offerings to meet strategic opportunities as they evolve. This includes developing products that we believe are necessary to meet the future needs of the marketplace. We are currently significantly investing in new product development programs to enable us to compete in the test contactor markets, while also investing in next generation test handlers and automated test equipment. For example, in fiscal year 2019, we incurred \$86.1 million in research and development expenses. We expect to continue to make investments and we may at any time, based on product need or marketplace demand, decide to significantly increase our product development expenditures in these or other products. The cost of investments in new product offerings can have a negative impact on our operating results. There can be no assurance that new products we develop will be accepted in the marketplace or generate material revenues for us.

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

We are a global corporation with offices and subsidiaries in certain foreign locations to manufacture our products, support our sales and services to the global semiconductor industry and, as such, we face risks in doing business abroad. Certain aspects inherent in transacting business internationally could negatively impact our operating results, including:

- costs and difficulties in staffing and managing international operations;
- legislative or regulatory requirements and potential changes in or interpretations of requirements in the United States and in the countries in which we manufacture or sell our products;
- trade restrictions, including treaty changes, sanctions and the suspension of export licenses;
- compliance with and changes in import/export tariffs and regulations;
- complex labor laws and privacy regulations;
- difficulties in enforcing contractual and intellectual property rights;
- longer payment cycles;
- health epidemics; such as the COVID-19 pandemic;
- local political and economic conditions;
- natural disasters and geopolitical instability;

[Table of Contents](#)

- complex tax laws and potentially adverse tax consequences, including restrictions on repatriating earnings and the threat of "double taxation;" and
- fluctuations in foreign currency exchange rates against the U.S. Dollar, which can affect demand for our products and increase our costs.

To highlight the complexity of foreign labor laws, in 2019, we incurred \$9.5 million of severance and related costs to downsize and reduce headcount by approximately 105 employees in our Rosenheim, Germany facility, and expect to incur additional severance costs in the future as we continue to seek headcount efficiencies in our business globally. Additionally, managing geographically dispersed operations presents difficult challenges associated with organizational alignment and infrastructure, communications and information technology, inventory control, customer relationship management, terrorist threats and related security matters and cultural diversities. If we are unsuccessful in managing such operations effectively, our business and results of operations will be adversely affected.

We continue to monitor global privacy laws and legislation to determine its impact on our business. We do not sell to consumers nor process individual credit card information, but do maintain certain personally identifiable information on our employees. Such employee information may be subject to the EU General Data Protection Regulation and the recently effective California Consumer Protection Act. We believe that we have implemented reasonable procedures and internal controls in compliance with these laws, but should such actions be insufficient, we may be subject to regulatory investigations, fines and legal costs.

**** We have manufacturing operations in Asia. Any failure to effectively manage multiple manufacturing sites and to secure raw materials meeting our quality, cost and other requirements, or failures by our suppliers to perform, could harm our sales, service levels and reputation.***

Our reliance on overseas manufacturers exposes us to significant risks including complex management, foreign currency, legal, tax and economic risks, which we may not be able to address quickly and adequately. In addition, it is time consuming and costly to qualify overseas supplier relationships. If we should fail to effectively manage overseas manufacturing operations or logistics, or if one or more of them should experience delays, disruptions or quality control problems, or if we had to change or add additional manufacturing sites, our ability to ship products to our customers could be delayed. Also, the

addition of overseas manufacturing locations increases the demands on our administrative and operations infrastructure and the complexity of our supply chain management and logistics. Our overseas sites are more susceptible to impacts from natural disasters, health epidemics and geopolitical instability (see risk factors entitled “The ongoing global COVID-19 pandemic has adversely affected, and is continuing to adversely affect, our business, financial condition and results of operations” and “The occurrence of natural disasters, health epidemics, and geopolitical instability caused by terrorist attacks and other threats may adversely impact our operations and sales”). If our overseas manufacturing locations are unable to meet our manufacturing requirements in a timely manner, our ability to ship products and to realize the related revenues when anticipated could be materially affected.

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

Failure of critical suppliers to deliver sufficient quantities of parts in a timely and cost-effective manner could adversely impact our operations.

We use numerous vendors to supply parts, components and subassemblies for the manufacture of our products. It is not always possible to maintain multiple qualified suppliers for all of our parts, components and subassemblies. As a result, many key parts may be available only from a single supplier (“sole source”) or a limited number of suppliers. In addition, suppliers may significantly raise prices or cease manufacturing certain components (with or without advance notice to us) that are difficult to replace without significant reengineering of our products. On occasion, we have experienced problems in obtaining adequate and reliable quantities of various parts and components from certain key or sole source suppliers. Our results of operations may be materially and adversely impacted if we do not receive sufficient parts to meet our requirements in a timely and cost-effective manner.

[Table of Contents](#)

**** The semiconductor industry we serve is seasonal, volatile and unpredictable.***

Visibility into our markets is limited. The semiconductor equipment business is highly dependent on the overall strength of the semiconductor industry. Historically, the semiconductor industry has been seasonal with recurring periods of oversupply and excess capacity, which often have had a significant effect on the semiconductor industry’s demand for capital equipment, including equipment of the type we manufacture and market. We anticipate that the markets for newer generations of semiconductors and semiconductor equipment will also be subject to similar cycles and severe downturns. Any significant reductions in capital equipment investment by semiconductor integrated device manufacturers and test subcontractors will materially and adversely affect our business, financial position and results of operations. In addition, the seasonal, volatile and unpredictable nature of semiconductor equipment demand has in the past and may in the future expose us to significant excess and obsolete and lower of cost or net realizable value inventory write-offs and reserve requirements. In 2019, 2018 and 2017, we recorded pre-tax inventory-related charges of approximately \$4.1 million, \$1.4 million, and \$1.1 million, respectively, primarily as a result of changes in customer forecasts. In the second half of 2018 and throughout 2019, we saw significantly weakened demand in automotive, mobility and consumer market segments, and overall geographic weakness in China and Taiwan. These trends adversely affected our second half 2018 results and full year 2019 results. Such adverse trends have materially impacted all of our business areas, including the businesses conducted by Xcerra. In 2019 and 2018 we incurred \$2.7 million and \$19.1 million, respectively, of inventory charges related to the decision to end manufacturing of certain of Xcerra’s semiconductor test handler products, and these charges may be insufficient as market conditions and demand changes. More recently, the COVID-19 pandemic and associated lower product demand through third quarter 2020 has increased the risks that excess and obsolete and lower of cost or net realizable value inventory write-offs may be required.

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

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

We believe that our existing sources of liquidity, including cash resources and cash provided by operating activities will provide sufficient resources to meet our working capital and cash requirements for at least the next twelve months. In the event we are required, or elect, to raise additional funds, we may be unable to do so on favorable terms, or at all, and may incur expenses in raising the additional funds and increase our interest rate exposure, and any future indebtedness could adversely affect our operating results and severely limit our ability to plan for, or react to, changes in our business or industry. Further, under our Credit Agreement, we are significantly limited by financial and other negative covenants in our credit arrangements, including limitations on our borrowing of additional funds and issuing dividends. At any time in the future, we may determine to issue new equity-linked (such as convertible debt) or equity securities in order to pay down long-term debt or for other corporate purposes. In such case, existing stockholders may be diluted which would likely affect the market price of our stock. Any such new equity securities may have rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise funds on acceptable terms, we may not be able to take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. Any inability to raise additional capital when required could have an adverse effect on our business and operating results.

The semiconductor equipment industry is intensely competitive.

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

We have increased investments in our test contactor business and announced significant growth targets for the business over the next several years, but due to weak market conditions we did not achieve our growth goals in 2019. The test contactor market is fragmented, with many entrenched regional players, and subject to intense price competition and high customer support requirements. We believe that customer support and responsiveness and an ability to consistently meet tight deadlines is critical to our success. If we are unable to reduce the cost of our test contactor products, while also meeting customer support requirements and deadlines, then we expect that these competitive conditions would negatively impact our gross margin and operating results in the foreseeable future.

[Table of Contents](#)

In addition, with the Xcerra acquisition, Cohu entered the automated test equipment (“ATE”) market. Our ability to increase our ATE sales will depend, in part, on our ability to obtain orders from new customers. Semiconductor and electronics manufacturers typically select a particular vendor’s product for testing new generations of a device and make substantial investments to develop related test program applications and interfaces. Once a manufacturer has selected an ATE vendor for a new generation of a device, that manufacturer is more likely to purchase systems from that vendor for that generation of the device, and, possibly, subsequent generations of that device as well. Further, Cohu has a niche position and relatively low share in the ATE market, and this market is primarily driven by two larger companies with significantly more resources to invest into the ATE market. Therefore, the opportunities to obtain orders from new customers or existing customers may be limited, which may impair our ability to grow our ATE revenue. In fact, as market conditions have weakened, we have seen a material reduction in sales within our ATE business. These developments may materially and adversely affect our current and future target markets and our ability to compete successfully in those markets.

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

Semiconductor equipment and processes are subject to rapid technological change. We believe that our future success will depend in part on our ability to enhance existing products and develop new products with improved performance capabilities. We expect to continue to invest heavily in research and development and must manage product transitions successfully, as introductions of new products, including the products obtained in our acquisitions, may adversely impact sales and/or margins of existing products. In addition, the introduction of new products by us or by our competitors, the concentration of our revenues in a limited number of large customers, the migration to new semiconductor testing methodologies and the custom nature of our inventory parts increases the risk that our established products and related inventory may become obsolete, resulting in significant excess and obsolete inventory exposure. This exposure resulted in charges to operations during each of the years in the three-year period ended December 28, 2019. Future inventory write-offs and increased inventory reserve requirements could have a material adverse impact on our results of operations and financial condition.

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

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

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

The semiconductor equipment industry is characterized by dramatic and sometimes rapid changes in demand for its products. These are generally dictated by introduction of new consumer products, launch of new model vehicles, implementation of new communications infrastructure, or in response to an increase in industrial equipment and machinery that utilizes semiconductors. A number of other factors including changes in integrated circuit design and packaging may affect demand for our products. Sudden changes in demand for semiconductor equipment commonly occur, and have a significant impact on our operations, and such changes in demand (up or down) are difficult to predict and proactively plan for. We have in the past and may in the future experience difficulties, particularly in manufacturing, in training and recruiting the large number of additions to our workforce. The volatility in headcount and business levels, combined with the seasonal nature of the semiconductor industry, may require that we invest substantial amounts in new operational and financial systems, procedures and controls. We may not be able to successfully adjust our systems, facilities and production capacity to meet our customers’ changing requirements. Any inability to meet such requirements will have an adverse impact on our business, financial position and results of operations. For example, in the second half of 2018 and throughout 2019, we saw significantly weakened demand in automotive, mobility and consumer market segments, and overall geographic weakness in China and Taiwan. These trends adversely affected our second half 2018 results and full year 2019 results. Further, driven by COVID-19 economic impacts, the automotive segment continued to weaken in the first half of 2020. Finally, Cohu saw improved business conditions in third quarter 2020. These sudden changes in business conditions, positive or negative, are common in our industry and very difficult to predict.

[Table of Contents](#)

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

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

In addition, the tightening of credit markets and concerns regarding the availability of credit may make it more difficult for our customers to raise capital, whether debt or equity, to finance their purchases of capital equipment, including the products we sell. Delays in our customers' ability to obtain such financing, or the unavailability of such financing would adversely affect our product sales and revenues and therefore harm our business and operating results. Possible import, export, tariff and other trade barriers, which could be imposed by Asia, the United States, other countries or the European Union might also have a material adverse effect on our operating results. We cannot predict the timing, duration of or effect on our business of an economic slowdown or the timing or strength of a subsequent recovery.

**** Global economic and political conditions, including trade tariffs and export restrictions, have impacted our business and may continue to have an impact on our business and financial condition.***

In fiscal year 2019, 88% of our revenue was from products shipped to customer locations outside the United States. We also purchase a significant portion of components and subassemblies from suppliers outside the United States. Additionally, a significant portion of our facilities are located outside the United States, including Malaysia, Germany, the Philippines, China and Japan.

There have been significant changes in U.S. export regulations relating to China since 2019. In May 2019, the Bureau of Industry and Security ("BIS") of the U.S. Department of Commerce added Huawei to the BIS's Entity List, which imposes limitations on the supply of certain U.S. items and product support to Huawei (all references to Huawei include its wholly-owned subsidiary HiSilicon). In response, we conducted a review of our product line and concluded certain of our products and related support are not subject to the Export Administration Regulations ("EAR"), and therefore not within the scope of the Entity List restrictions. Accordingly, we then lawfully resumed shipping certain products to Huawei. Subsequently, in May 2020 and August 2020, BIS announced rules which amended the foreign-produced direct product rule and the Entity List to target Huawei's acquisition of Huawei-designed and subsequently third-party semiconductors that are the direct product of certain U.S.-origin software and technology. Essentially, the new rules are intended to prevent Huawei from using certain controlled U.S.-origin equipment, technology, and software located outside the United States to have produced semiconductor products for Huawei's use. Also, as of June 2020, the BIS requires exporters to obtain a license for specified items if at the time of the export they had knowledge that the item was intended to support Chinese "military end users," in addition to "military end uses." This rule is expected to impact third parties who may primarily provide commercial services but also have Chinese military/government business.

Based on the rules referenced above, our direct and indirect business in support of Huawei and its affiliates has and will continue to be materially adversely impacted, particularly our ATE business. Impacted direct and indirect Huawei annual sales are estimated to be less than 5% of Cohu's revenue, and at this time, we believe that any lost Huawei revenue has been offset with sales to other device customers as semiconductor market share and volumes shift to other manufacturers and away from Huawei products. Regarding this apparent share shift, it may represent only short-term demand for the company and, given the unpredictability of mobile device shares and ongoing uncertainties in U.S.-China trade relations, the company is unable to forecast the long-term impacts regarding Huawei.

In addition, we have evaluated the new military rule referenced above, conducted reasonable due diligence of our customer list, and do not expect any material impact from this rule at this time. However, we believe that these collective export restrictions and the ongoing unpredictability of U.S.-China trade relations have encouraged China-based companies to actively seek to obtain a greater supply of similar or substitute products from our foreign competitors that are not subject to these restrictions, thereby decreasing our long-term competitiveness as a supplier to China-based companies. Recent history indicates that the U.S. government may impose other new export restrictions, or tariffs, without prior notice impacting our ability (or our customers' ability) to sell and ship products to China-based companies and any such additional restrictions may have an adverse effect on our business, results of operations, or financial condition.

[Table of Contents](#)

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

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

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

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

Our global Enterprise Resource Management (“ERP”) upgrade may adversely affect our business and results of operations or the effectiveness of internal controls over financial reporting.

We are in final development stages of a phased global replacement of our existing ERP solution and launched the first phase of such new ERP solution in first quarter 2020. The second phase and rollout is planned throughout 2020 and 2021. The new solution is being developed as an enterprise solution in partnership with a leading provider of ERP tools. Additional investments in enterprise tools that focus on product life-cycle management, our customer experience, and supply chain management are in process to support our growing business. These implementations are extremely complex and time-consuming projects that involve substantial expenditures on software and implementation activities. If we do not effectively implement the system or if the system does not operate as intended, it could result in the loss or corruption of data, delayed order processing and shipments and increased costs. It could also adversely affect our financial reporting systems and our ability to produce financial reports and process transactions, the effectiveness of internal controls over financial reporting, and our business, financial condition, results of operations and cash flows.

Our business and operations could suffer in the event of cybersecurity breaches.

Attempts by others to gain unauthorized access to information technology systems are becoming more sophisticated and are sometimes successful. These attempts, which might be related to industrial or other espionage, include covertly introducing malware to our computers and networks and impersonating authorized users, among others. We seek to detect and investigate all cybersecurity incidents and to prevent their recurrence, but in some cases, we might be unaware of an incident or its magnitude and effects. The company has been impacted by immaterial “phishing” schemes and is continuing its efforts to train employees on such risks but may still incur damages from such schemes in the future. We believe that extensive employee telework practices, implemented in response to the COVID-19 pandemic, have increased our cybersecurity risks. The theft, unauthorized use or publication of our intellectual property and/or confidential business information could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. To the extent that any security breach results in inappropriate disclosure of our customers' or licensees' confidential information, we may incur liability as a result. Further, any attack that disrupted our IT systems could impact our sales, financial results and stock price. In response to these risks, we expect to continue to devote additional resources to the security of our information technology systems.

[Table of Contents](#)

**** The loss of key personnel could adversely impact our business.***

Certain key personnel are critical to our business. Our future operating results depend substantially upon the continued service of our key personnel, many of whom are not bound by employment or non-competition agreements. Our future operating results also depend in significant part upon our ability to attract and retain qualified management, manufacturing, technical, engineering, marketing, sales and support personnel. Competition for qualified personnel, particularly those with technical skills, is intense, and we cannot ensure success in attracting or retaining qualified personnel. In addition, the cost of living in the San Diego and Bay Area, California, Boston, Massachusetts, Rosenheim and Kolbermoor, Germany, La Chaux-de-Fonds, Switzerland and Osaka, Japan areas, where the majority of our engineering personnel are located, is high and we have had difficulty in recruiting prospective employees from other locations. There may be only a limited number of persons with the requisite skills and relevant industry experience to serve in these positions and it may become increasingly difficult for us to hire personnel over time. More recently, the COVID-19 pandemic has increased the risks that our executives and other key employees may be suddenly unable to perform their duties due to health or other personal responsibilities. Our business, financial condition and results of operations could be materially adversely affected by the loss of any of our key employees, by the failure of any key employee to perform in his or her current position, or by our inability to attract and retain skilled employees.

Third parties may violate our proprietary rights or accuse us of infringing upon their proprietary rights.

We rely on patent, copyright, trademark and trade secret laws to establish and maintain proprietary rights in our technology and products. Any of our proprietary rights may expire due to patent life, or be challenged, invalidated or circumvented. In addition, from time-to-time, we receive notices from third parties regarding patent or copyright claims. Any such claims, with or without merit, could be time-consuming to defend, result in costly litigation, divert management's attention and resources and cause us to incur significant expenses. In the event of a successful claim of infringement against us and our failure or inability to license the infringed technology or to substitute similar non-infringing technology, our business, financial condition and results of operations could be adversely affected. We are also subject to the theft and misappropriation of intellectual property by others, including incidents relating to former employees. We believe we are taking reasonable actions to protect and improve our security, through strengthened IT infrastructure and internal controls, but if these actions are not successful our business could be adversely affected.

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

The majority of our export sales are made to destinations in Asia. Political or economic instability, particularly in Asia, may adversely impact the demand for capital equipment, including equipment of the type we manufacture and market (see risk factor “Global economic and political conditions, including trade tariffs and export restrictions, have impacted our business and may continue to have an impact on our business and financial condition”). In addition, we face intense competition from a number of Asian suppliers that have certain advantages over United States (U.S.) suppliers, including us. These advantages include, among other things, proximity to customers, lower cost structures, favorable tariffs and affiliation with significantly larger organizations. In addition, changes in the amount or price of semiconductors produced in Asia could impact the profitability or capital equipment spending programs of our foreign and domestic customers.

Unanticipated changes in our tax provisions, enactment of new tax laws, or exposure to additional income tax liabilities could affect our profitability.

We are subject to income and other taxes in the U.S. and numerous foreign jurisdictions. Our tax liabilities are affected by, among other things, the amounts our affiliated entities charge each other for intercompany transactions. Our German subsidiaries income tax returns for 2015 to 2017, and our Philippines subsidiary income tax returns for 2017 and 2018 are currently under routine examination by tax authorities in their respective countries. We may be subject to ongoing tax examinations in various jurisdictions. Tax authorities may disagree with our intercompany charges or other matters and assess additional taxes. While we regularly assess the likely outcomes of these examinations to determine the appropriateness of our tax provision, tax audits are inherently uncertain, and an unfavorable outcome could occur. An unanticipated, unfavorable outcome in any specific period could harm our operating results for that period or future periods. The financial cost and management attention and time devoted to defending income tax positions may divert resources from our

business operations, which could harm our business and profitability. Tax examinations may also impact the timing and/or amount of our refund claims. In addition, our effective tax rate in the future could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of our deferred tax assets and liabilities, changes in tax laws and the discovery of new information in the course of our tax return preparation process. In particular, the carrying value of our deferred tax assets and the utilization of our net operating loss and credit carryforwards are dependent on our ability to generate future taxable income in the U.S. and other countries. Furthermore, these carryforwards may be subject to annual limitations as a result of changes in Cohu's ownership. As a result of the acquisition of Xcerra, a greater than 50% cumulative ownership change in Xcerra triggered a significant limitation in the utilization of their net operating loss and research credit carryforwards. Cohu's ability to use the acquired Xcerra U.S. net operating loss and credit carryforwards is subject to annual limitations as defined in sections 382 and 383 of the Internal Revenue Code.

[Table of Contents](#)

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was signed into law in the United States. The changes in the Tax Act are broad and complex and we continue to examine the impact the Tax Act may have on our business and financial results. Among its many provisions, the Tax Act imposed a mandatory one-time transition tax on undistributed foreign earnings regardless of whether they are repatriated, reduced the U.S. corporate income tax rate from 35% to 21%, imposed limitations on the deductibility of interest and certain other corporate deductions, moved from a "worldwide" system of taxation that generally allows deferral of U.S. tax on foreign earnings until repatriated to a "territorial"/dividend exemption system with a minimum tax that will subject foreign earnings to U.S. tax when earned and created new taxes on certain foreign-sourced earnings and related-party payments, which are referred to as the global intangible low-taxed income tax and the base erosion and anti-abuse tax, respectively. In accordance with applicable SEC guidance (SAB 118), we recorded provisional amounts as of December 30, 2017, however, these provisional amounts were subject to change in 2018, due to, among other things, changes in estimates, interpretations and assumptions we have made, changes in Internal Revenue Service (IRS) interpretations, the issuance of new guidance, legislative actions, changes in accounting standards or related interpretations in response to the Tax Act and future actions by states within the United States that have not currently adopted the Tax Act. During 2018 we completed the accounting for the effects of the Tax Act and recorded an increase in our transition tax liability of approximately \$5.1 million that was fully offset by the use of net operating loss carryforwards resulting in no net increase in tax expense. We must continue to address new regulations and interpretations of the Tax Act as they are issued.

Compliance with regulations may impact sales to foreign customers and impose costs.

Certain products and services that we offer require compliance with U.S. and other foreign country export and other regulations. Compliance with complex U.S. and other foreign country laws and regulations that apply to our international sales activities increases our cost of doing business in international jurisdictions and could expose us or our employees to fines and penalties. These laws and regulations include import and export requirements, the U.S. State Department International Traffic in Arms Regulations ("ITAR") and U.S. and other foreign country laws such as the Foreign Corrupt Practices Act ("FCPA"), and local laws prohibiting corrupt payments to governmental officials. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business and damage to our reputation. Although we have implemented policies and procedures designed to ensure compliance with these laws, there can be no assurance that our employees, contractors or agents will not violate our policies, or that our policies will be effective in preventing all potential violations. Any such violations could include prohibitions on our ability to offer our products and services to one or more countries, and could also materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Further, defending against claims of violations of these laws and regulations, even if we are successful, could be time-consuming, result in costly litigation, divert management's attention and resources and cause us to incur significant expenses.

In addition to government regulations regarding sale and export, we are subject to other regulations regarding our products. For example, the U.S. Securities and Exchange Commission has adopted disclosure rules for companies that use conflict minerals in their products, with substantial supply chain verification requirements if the materials come from, or could have come from, the Democratic Republic of the Congo or adjoining countries. These new rules and verification requirements impose additional costs on us and on our suppliers and may limit the sources or increase the cost of materials used in our products. Further, if we are unable to certify that our products are conflict free, we may face challenges with our customers that could place us at a competitive disadvantage, and our reputation may be harmed.

There may be changes in, and uncertainty with respect to, legislation, regulation and governmental policy in the United States.

The change in administration in the United States has resulted and may continue to result in significant changes in, and uncertainty with respect to, legislation, regulation and government policy. Specific legislative and regulatory proposals that could have a material impact on us include, but are not limited to, infrastructure renewal programs; and modifications to international trade policy, such as approvals by the Committee on Foreign Investment in the United States; increased duties, tariffs or other restrictions; public company reporting requirements; environmental regulation and antitrust enforcement.

**** The occurrence of natural disasters, health epidemics, and geopolitical instability caused by terrorist attacks and other threats may adversely impact our operations and sales.***

Our corporate headquarters is located in San Diego, California, our Asian sales and service headquarters is located in Singapore and the majority of our sales are made to destinations in Asia. In addition, we have Asia-based manufacturing plants in Malaysia, Philippines and Japan. These regions are known for being vulnerable to natural disasters and other risks, such as earthquakes, tsunamis, fires and floods, volcanic eruptions, and geopolitical risks, which at times have disrupted the local economies. For example, a significant earthquake or tsunami could materially affect operating results. We are not insured for most losses and business interruptions of this kind, or for geopolitical or terrorism impacts, and presently have limited redundant, multiple site capacity in the event of a disaster. In the event of such disaster, our business would materially suffer.

[Table of Contents](#)

Our business could be adversely affected by the effects of a widespread outbreak of contagious diseases, and has been and is continuing to be adversely affected by the COVID-19 global pandemic (see risk factor entitled "The ongoing global COVID-19 pandemic has adversely affected, and is continuing to adversely affect, our business, financial condition and results of operations").

**** Our financial and operating results may vary and fall below analysts' estimates, or credit rating agencies may change their ratings on Cohu, any of which may cause the price of our common stock to decline or make it difficult to obtain other financing.***

Our operating results may fluctuate from quarter to quarter due to a variety of factors including, but not limited to:

- seasonal, volatile and unpredictable nature of the semiconductor equipment industry;
- timing and amount of orders from customers and shipments to customers;
- customer decisions to cancel orders or push out deliveries;
- inability to recognize revenue due to accounting requirements;
- inventory write-downs;
- unexpected expenses or cost overruns in the introduction and support of products;
- inability to deliver solutions as expected by our customers; and
- intangible and deferred tax asset write-downs.

Due to these factors or other unanticipated events, quarter-to-quarter comparisons of our operating results may not be reliable indicators of our future performance. In addition, from time-to-time our quarterly financial results may fall below the expectations of the securities and industry analysts who publish reports on our company or of investors in general. This could cause the market price of our stock to decline, perhaps significantly.

In addition, as a result of the Credit Facility, we maintain credit ratings with Moody's Investors Service, Inc. ("Moody's") and S&P Global Ratings ("S&P"). The current Moody's and S&P issuer credit ratings for Cohu are B2 and B, respectively. Moody's and S&P downgraded their outlook on Cohu from B1 (to B2) and BB- (to B) on September 19, 2019 and October 16, 2019, respectively. The changes in outlook were primarily the result of Cohu's high leverage following a significant decline in operating performance year-to-date in fiscal 2019, weakness in the semiconductor industry, particularly in Cohu's mobility and automotive segments, depressed customer capital spending, and assumptions regarding Cohu's 2019 cash consumption. Subsequently, on March 31, 2020, S&P further downgraded their outlook on Cohu from B to B-, primarily due to weaker credit metrics and the macroeconomic impact from the COVID-19 pandemic.

Any further downgrade of Cohu's credit ratings or rating outlooks may materially and adversely affect the market price of our equity and the availability, cost or interest rate of other credit or financing. The recent rating downgrades and any further downgrades will make it more costly for Cohu or its subsidiaries to borrow money or enter into new credit facilities and to raise certain other types of capital and/or complete additional financings. Any such negative credit rating actions and the reasons for such actions could materially and adversely affect our cash flows, results of operations and financial condition and our ability to pay the principal of and interest on, our debt.

** We have experienced significant volatility in our stock price.*

A variety of factors may cause the price of our stock to be volatile. The stock market in general, and the market for shares of high-technology companies in particular, including ours, have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. During the three-year period ended September 26, 2020, the price of our common stock has ranged from \$27.83 to \$8.89. The price of our stock may be more volatile than the stock of other companies due to, among other factors, the unpredictable, volatile and seasonal nature of the semiconductor industry, our significant customer concentration, intense competition in the test handler and ATE industry, our limited backlog, our debt levels and high leverage, and our relatively low daily stock trading volume. The COVID-19 pandemic has caused significant market volatility which increases the risks of significant and sudden investment losses. The market price of our common stock is likely to continue to fluctuate significantly in the future, including fluctuations related and unrelated to our performance.

[Table of Contents](#)

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None.

[Table of Contents](#)

Item 6. Exhibits.

10.1 [Severance Agreement, dated September 8, 2020, between the Company and Christopher G. Bohrson *](#)

10.2 [Severance Agreement, dated September 8, 2020, between the Company and Jeffrey D. Jones *](#)

10.3 [Severance Agreement, dated September 8, 2020, between the Company and Thomas D. Kampfer *](#)

10.4 [Severance Agreement, dated September 8, 2020, between the Company and Luis A. Müller *](#)

10.5 [Change in Control Agreement, dated September 8, 2020, between the Company and Christopher G. Bohrson *](#)

10.6	Change in Control Agreement, dated September 8, 2020, between the Company and Jeffrey D. Jones *
10.7	Change in Control Agreement, dated September 8, 2020, between the Company and Thomas D. Kampfer *
10.8	Change in Control Agreement, dated September 8, 2020, between the Company and Luis A. Müller *
10.9	Settlement Agreement regarding employment, dated October 27, 2020, between the Company and Pascal Rondé *
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

* Management contract or compensatory plan or arrangement

[Table of Contents](#)

SIGNATURES

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

COHU, INC.
(Registrant)

Date: November 4, 2020

/s/ Luis A. Müller
Luis A. Müller
President & Chief Executive Officer

Date: November 4, 2020

/s/ Jeffrey D. Jones
Jeffrey D. Jones
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 Christopher G. Bohrson (“**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 December 22, 2015. 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.**

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: 09/08/2020

By: /s/ Christopher G. Bohrson
Name: Christopher G. Bohrson
Address: 12367 Crosthwaite Circle
Poway, CA 92064

COMPANY

Cohu, Inc.

Dated: 09/08/2020

By: /s/ Luis Müller
Name: Luis Müller
Title: CEO

Address: 12367 Crosthwaite Circle
Poway, CA 92064

EXHIBIT A

COHU, INC.

CONFIDENTIALITY AND INVENTIONS AGREEMENT

COHU, INC.
SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT (the “**Agreement**”) is made and entered into as of September 8, 2020, by and between Jeffrey D. Jones (“**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 July 5, 2005. 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.**

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: 09/08/2020

By: /s/ Jeffrey D. Jones
Name: Jeffrey D. Jones
Address: 12367 Crosthwaite Circle
Poway, CA 92064

COMPANY

Cohu, Inc.

Dated: 09/08/2020

By: /s/ Luis Müller
Name: Luis Müller
Title: CEO

Address: 12367 Crosthwaite Circle
Poway, CA 92064

EXHIBIT A

COHU, INC.

CONFIDENTIALITY AND INVENTIONS AGREEMENT

COHU, INC.
SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT (the “**Agreement**”) is made and entered into as of September 8, 2020, by and between Thomas D. Kampfer (“**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 May 30, 2017. 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 Executive 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.**

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: 09/08/2020

By: /s/ Thomas D. Kampfer
Name: Thomas D. Kampfer
Address: 12367 Crosthwaite Circle
Poway, CA 92064

COMPANY

Cohu, Inc.

Dated: 09/08/2020

By: /s/ Luis Müller
Name: Luis Müller
Title: CEO

Address: 12367 Crosthwaite Circle
Poway, CA 92064

EXHIBIT A

COHU, INC.

CONFIDENTIALITY AND INVENTIONS AGREEMENT

COHU, INC.
SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT (the “**Agreement**”) is made and entered into as of September 8, 2020 by and between Luis A. Müller (“**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 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 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 **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 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 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 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 (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 Board which describes the basis for the Board'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) “**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) a material reduction in Executive’s overall responsibilities, authority or scope of duties (other than temporarily while Executive is physically or mentally incapacitated or as required by applicable law);
 - (iv) any material breach by the Company of any material provision of this Agreement;
 - (v) the Company’s failure to nominate Executive for election to the Board and to use its best efforts to have him elected and re-elected, as applicable;
 - (vi) 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.

(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 (disregarding any reduction in Target Bonus that would constitute Good Reason) 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 the occurrence 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.

(j) “**Severance Benefit Period**” means a period of eighteen (18) 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 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.**

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 July 28, 2005. 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 agreement dated December 28, 2014 (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: 09/08/2020

By: /s/ Luis A. Müller
Name: Luis A. Müller
Address: 12367 Crosthwaite Circle
Poway, CA 92064

COMPANY

Cohu, Inc.

Dated: 09/08/2020

By: /s/ Steven J. Bilodeau
Name: Steven J. Bilodeau
Title: Chair, Compensation Committee

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 Christopher G. Bohrson (“**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(e)** (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 December 22, 2015. 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.

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: 09/08/2020

By: /s/ Christopher G. Bohrson
Name: Christopher G. Bohrson
Address: 12367 Crosthwaite Circle
Poway, CA 92064

COMPANY

Cohu, Inc.

Dated: 09/08/2020

By: /s/ Luis Müller
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 Jeffrey D. Jones (“**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(e)** (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) a material reduction in Executive's overall responsibilities, authority or scope of duties (other than temporarily while Executive is physically or mentally incapacitated or as required by applicable law);
- (iv) any material breach by the Company of any material provision of this Agreement;
- (v) 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;
- (vi) 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 July 5, 2005. 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 form of Change in Control Agreement as approved by the Committee of the Board on December 23, 2008 (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: 09/08/2020

By: /s/ Jeffrey D. Jones
Name: Jeffrey D. Jones
Address: 12367 Crosthwaite Circle
Poway, CA 92064

COMPANY

Cohu, Inc.

Dated: 09/08/2020

By: /s/ Luis Müller
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 Thomas D. Kampfer (“**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(e)** (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) a material reduction in Executive's overall responsibilities, authority or scope of duties (other than temporarily while Executive is physically or mentally incapacitated or as required by applicable law);
- (iv) any material breach by the Company of any material provision of this Agreement;
- (v) 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;
- (vi) 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 May 30, 2017. 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 Executive 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 June 5, 2017 (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: 09/08/2020

By: /s/ Thomas D. Kampfer
Name: Thomas D. Kampfer
Address: 12367 Crosthwaite Circle
Poway, CA 92064

COMPANY

Cohu, Inc.

Dated: 09/08/2020

By: /s/ Luis Müller
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 Luis A. Müller (“**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 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 **200%** 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 **200%** 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 twenty-four (24) 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(e)** (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 Board which describes the basis for the Board’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) a material reduction in Executive's overall responsibilities, authority or scope of duties (other than temporarily while Executive is physically or mentally incapacitated or as required by applicable law);
- (iv) any material breach by the Company of any material provision of this Agreement;
- (v) 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;
- (vi) material diminution in the authority, duties, or responsibilities of the supervisor to whom Executive is required to report, including a requirement that Executive report to another employee instead of reporting directly to the board of directors of a corporation (or similar governing body with respect to an entity other than a corporation);
- (vii) the Company's failure to nominate Executive for election to the Board and to use its best efforts to have him elected and re-elected, as applicable;
- (viii) 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 twenty-four (24) 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 July 28, 2005. 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 agreement dated December 28, 2014 (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: 09/08/2020

By: /s/ Luis A. Müller
Name: Luis A. Müller
Address: 12367 Crosthwaite Circle
Poway, CA 92064

COMPANY

Cohu, Inc.

Dated: 09/08/2020

By: /s/ Luis A. Müller
Name: Steven J. Bilodeau
Title: Chair, Compensation Committee
Address: 12367 Crosthwaite Circle
Poway, CA 92064

EXHIBIT A

COHU, INC.

CONFIDENTIALITY AND INVENTIONS AGREEMENT

Note: English translation of French language agreement

SETTLEMENT AGREEMENT

BETWEEN THE UNDERSIGNED:

LTX-Credence France, a French limited liability company, having its registered head office located at 60 rue des Berges – 38000 Grenoble, registered in the Commercial and Trade Register (RCS) of Grenoble under the number 323.859.074, represented by Mr. Luis Mueller, CEO, having due authority in this respect,

(hereinafter the “**Company**”),

ON THE ONE HAND,

AND

Mr. Pascal RONDE, French citizen, residing _____,

(hereinafter “**Mr. RONDE**”),

ON THE OTHER HAND,

(hereinafter together the “**Parties**”)

HAVING STATED THE FOLLOWING:

I. Mr. RONDE has been hired by the Company as from **19 December 2011**, and as amended on 26 April 2014, 2 October 2018 and 17 March 2020, under an indefinite-term employment contract in the capacity of Vice-President – Global Field Operations (hereinafter as the “**Employment Contract**”).

This position corresponded to a Management executive-level status.

Mr. RONDE’s employment relationship was governed by French law and the national-wide collective bargaining agreement for the Engineers and Executives of the Metal industry (hereinafter the “**CBA**”).

II. By hand-delivered letter against discharge, the Company convened Mr. RONDE to a meeting leading to a potential dismissal for personal reasons.

The pre-dismissal meeting took place on 19 October 2020.

Mr. RONDE was then notified of his dismissal by registered mail with acknowledgment of receipt dated 22 October 2020.

III. Following the receipt of his dismissal letter, Mr. RONDE challenged the grounds of his dismissal and the last conditions of execution of his work outlining the prejudices incurred to him therefrom.

The Company maintained its position in relation to the validity of the grounds used to sustain his dismissal and confirm having always complied with French law in the course of his employment with Mr. RONDE.

Therefore, and in order to avoid a litigation, the Parties through their respective lawyers have however continued their discussions, respectively through their lawyers, in order to find a possible amicable resolution of this potential litigation.

IV. The Parties have, through their respective lawyers, contacted each other and, following several discussions and mutual concessions, which resulted, in particular, in successive proposals, agreed to settle amicably and resolve the termination of Mr. RONDE's Employment Contract.

THIS HAVING BEEN RECITED, IT HAS BEEN AGREED AS FOLLOWS:

Article 1

The purpose of this agreement is to permanently settle any claims on the execution and the termination of the Employment Contract of Mr. RONDE.

Article 2

2.1 Mr. RONDE was notified of his dismissal by a registered letter with acknowledgement of receipt, received on 22 October 2020. The termination of Mr. RONDE's employment contract is therefore final and the parties waive their right to dispute it.

2.2 As from the Termination Date as defined under Article 3.2 below, the Company will pay to Mr. RONDE for this balance of all accounts, a CBA dismissal indemnity calculated as per the rules set by the provisions of the collective bargaining agreement, i.e. a gross amount of EUR 160,332.

The payment of this sum will be made in the course of the payroll of November 2020 after deduction of social security charges and contributions at the rate provided by the applicable legal provisions.

2.3 On Termination Date, the Company will send to Mr. RONDE:

- his work certificate (certificat de travail),
- his statement addressed to the Pôle Emploi,
- his settlement of account (solde de tout compte).

2.4 The Parties acknowledge that the Company has waived at the date of notification of the dismissal, all non-compete obligation and non-solicitation obligation. Therefore, no financial compensation is due in this respect to Mr. RONDE.

Article 3

3.1 As a concession, the Company agrees for Mr. RONDE to an accelerated vesting of his equity called Restricted Stock Units (“RSU”) and Performance Stock Units (“PSU”). The RSUs and PSUs are governed by the terms and conditions of the Cohu Group’s 2005 Equity Incentive Plan (the “**Cohu Equity Plan**”).

Therefore and as a settlement which is considered as lump sum, global, final, all matters aggregated, Mr. RONDE will be able to vest:

- 36,914 RSUs on 30 November 2020, and
- 27,027 PSUs on 28 February 2021 at the latest (the Parties agree that the actual number of PSUs to be vested and issued as shares is expressly contingent upon the actual achievement of the corporate total shareholder value metrics for fiscal years 2019 and 2020 as set forth in the Cohu Equity Plan and as such metrics are finally approved by the Cohu Group board of directors).

This grant made in 2 steps will be executed after withholding at source of any income tax at a rate of tax communicated by the French tax authorities and after deduction of the applicable social security charges and the CSG and CRDS payable by Mr. RONDE since the share plans are considered as non-qualified plans.

Upon effective execution of these grants, Mr. RONDE will give full release to the Company.

3.2 In addition, the notice of termination as provided by the CBA for a period of six (6) months, which was initially due to end on April 22, 2021, will be extended until March 31, 2022 (hereinafter the “**Termination Date**”), which Mr. RONDE hereby accepts.

From 22 October 2020 to 5 February 2021, Mr. RONDE will continue to work during his notice period on a full-time basis.

Then, from 6 February 2021 to 31 May 2021, Mr. RONDE will work on a one-week per month basis (i.e., 5 working days) since he will take his paid vacation for the remaining days during this period. His counter of accrued paid holidays will therefore be fully liquidated on the Termination Date.

From 1st June 2021 to 31st March 2022, he will perform his notice period on a part-time basis, i.e. approximately 20% of his working time. During this period, Mr. RONDE's duties and responsibilities will be reduced. The Company will solicit Mr. RONDE, at a minimum, who will respond to some solicitations by e-mail or telephone calls. He will consequently receive a notice period indemnity of a gross monthly amount of EUR 4,167. During this part-time period, Mr. RONDE will not be eligible for any automobile allowance, and any reimbursable business expenses must be approved in advance by the company.

During the entire period of this extended notice period, Mr. RONDE acknowledges that he is no longer eligible for the variable compensation plan, namely the fiscal year 2021 and 2022 “Management Incentive Plan”, nor any additional equity grants under the Cohu Equity Plan.

3.3 All the concessions are indissociable. If either Parties fails to one of his/its obligations as defined by this Article 3, the validity of this current Settlement Agreement may be challenged before the competent Labor Courts.

Article 4

Mr. RONDE hereby acknowledges that he does not have any corporate office or any other employment relationship created by law or in practice with any other entity of the Cohu Group.

Article 5

5.1 Subject to the payment of the sums due to him as per this settlement agreement and the full execution of this agreement by the Company, Mr. RONDE is acknowledging that he has received all sums that he could claim for the entire time he collaborates within the Company and the Cohu Group, and hereby undertakes expressly and irrevocably towards Company or any one of his legal representatives and all subsidiaries or branches of Cohu to waive all rights, actions, claims of any nature whatsoever and relating to:

- the performance of the employment contract (notably on salaries, commissions, bonus (excluding the bonus calculated for FY 2020 payable in 2021 in case of achievement of results allowing its payment), exceptional premiums, overtime work and relating indemnities, compensatory rest days, compulsory counterpart in rest days, paid holidays, JRTT, profit-sharing (“intéressement or participation”) rest days, indemnities, damages covering all type of prejudice, notably relating to the security, working time, all elements of salaries and/or benefits, benefit in-kind, etc.); and
- the termination of the employment contract (notably the dismissal indemnity, notice period indemnity, paid holidays indemnity, non-compete indemnity, non-poaching indemnity, damages relating to the reasons of the dismissal, to the dismissal procedure, individual training rights, supplemental retirement contributions or allowances, free grant of company's stocks and/or stock-options, damages for all type of prejudice, notably relating to the loss of chance, unemployment allowances, any retirement benefits, etc.).

Consequently, Mr. RONDE acknowledges that the terms of the amendment letter dated 2 October 2018 concerning the granting of a retention incentive have become null and void. No retention incentive is therefore due by the Company or the Cohu Group to him.

As such, Mr. RONDE hereby waives all legal actions against the Company or one of his legal representatives whoever he is, and against all subsidiaries or branches of Cohu whose cause, origin and subject would be related to the execution, the performance or the termination of the Employment Contract, and more generally related to the *de jure* or *de facto* relations that might have exist between the Parties.

Reciprocally, the LTX-Credence France Company and the Cohu Group renounce to all legal and/or judicial action on the execution and the termination of the employment contract.

The entire covenant of this clause is essential. Without the elaboration and the acceptance by both Parties of this covenant, this agreement would have not been accepted.

Article 6

The Parties hereby confirm having full understood and been informed about their rights and obligation as well as the social and tax treatment of the sums mentioned in this settlement agreement on top of their consequences on the unemployment allowances.

Mr. RONDE hereby declares that his consent is given freely and has benefitted, assisted by his lawyer, from the necessary time period to appreciate the consequences of the reciprocal concessions made by the Parties within the framework of his current settlement agreement.

Article 7

The Parties hereby agree that this current settlement agreement shall remain confidential and shall not be produced by any one of the Parties to a third party without the express approval of the other party except from the tax authorities, the social and Labour authorities (unemployment agency, social security authorities, etc.), any authorities of control, as required under United States Laws, including the United States Securities Exchange Commission or any national listing exchange, as well as the Company's auditors in the event of their request, and finally the Courts, for its proper execution.

Mr. RONDE hereby confirms that he has not as of today communicated to anyone any information relating to this current settlement agreement.

Article 8

The Parties expressly agree, without restriction or reservation, that this settlement agreement is concluded pursuant to the provisions of Articles 2044 et seq. of the French Civil Code to end the above mentioned dispute.

Pursuant to Article 2052 of that same Code, this Agreement forbids any introduction or litigation claim by the parties having the same purpose that is settled.

Article 9

The Parties hereby irrevocably waive their rights to make all action, statements, affidavit or testimony that would jeopardize the reputation or the interests of the other party or to anyone of the subsidiaries or branches of Cohu or anyone of its legal representatives whoever he/she is.

The Parties thus undertakes to avoid all behavior, statement, writs and more generally all actions of any nature whatsoever that might jeopardize to the image, the reputation or the interest of the Company.

Regarding the internal and the external communication on Mr. RONDE's departure, the Company will share a draft communication to Mr. RONDE for his opinion.

Mr. RONDE hereby undertakes in particular to avoid all intervention within any litigation whatsoever, that exist or will exist, between the Company and its employees, currently present or in the future, or any other person.

Mr. RONDE undertakes, for a period of twelve (12) months as from the Termination Date:

- (a) not to propose to any person who was, at the time of his actual departure or during the twelve (12) months preceding his departure, an employee, a consultant or an officer of the Company, or to attempt by any means, directly or indirectly, to persuade or incite this person to accept another employment or to leave the Company; and
- (b) not to hire any person who was an employee, a consultant or an officer of the Company, at the time of his actual departure or during the twelve (12) months preceding this departure, or to have him hired by a third party with whom the Employee has business relations.

Nothing herein shall impair Mr. RONDE's covenants and obligations set forth in his Employment Contract as per his post-contractual non-disclosure and intellectual property rights previously executed by him. Mr. RONDE shall otherwise abide by all obligations relating to protection and non-disclosure of Company's trade secrets and/or confidential and proprietary documents and information. Mr. RONDE also affirms that he has not divulged any proprietary or confidential information of the Company and will continue to maintain the confidentiality of such information consistent with the Company's policies and his Employment Contract with the Company and/or French law.

Mr. RONDE hereby undertakes not to provide, in any manner whatsoever, directly or indirectly, to any person, firm, association or company, any confidential business information regarding in particular the Company's (or any companies of the Cohu Group's) activities, products, research and technological development, IP rights, clients or staff, without the prior written authorization of a legal representative of the Company.

Article 10

The Parties undertake to perform this settlement in good faith and without any reservation and agree that the one who is not fulfilling its obligation shall be liable to the payment of damages under the terms and conditions of French law.

Executed in Paris, in two (2) original copies,
On 27 October 2020

*** read and approved, good for transaction and waiver of all proceedings and actions**

/s/ Luis Mueller

LTX-Credence France*
Luis Mueller
Président

*** read and approved, good for transaction and waiver of all proceedings and actions**

/s/ Pascal Rondé

Pascal RONDE*

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: November 4, 2020

/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: November 4, 2020

/s/ Jeffrey D. Jones

Jeffrey D. Jones
Vice President Finance & Chief Financial Officer

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

In connection with the accompanying Quarterly Report of Cohu, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended September 26, 2020 (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: November 4, 2020

/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 September 26, 2020 (the "Report"), I, Jeffrey D. Jones, Vice President Finance & Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

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

Date: November 4, 2020

/s/ Jeffrey D. Jones

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