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 April 1, 2023

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	**95-1934119**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
12367 Crosthwaite Circle, Poway, California	**92064-6817**
(Address of principal executive offices)	*(Zip Code)*

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Smaller reporting company ☐ Emerging growth company ☐

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

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

As of April 27, 2023, the Registrant had 47,533,071 shares of its $1.00 par value common stock outstanding.

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APRIL 1, 2023

Item 1.

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

	April 1, 2023 (Unaudited)	December 31, 2022*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 226,649	$ 242,341
Short-term investments	97,646	143,235
Accounts receivable, net	176,257	176,148
Inventories	176,189	170,141
Prepaid expenses	32,168	24,017
Other current assets	587	8,969
Total current assets	709,496	764,851
Property, plant and equipment, net	67,208	65,011
Goodwill	223,552	213,539
Intangible assets, net	143,946	140,104
Other assets	21,679	21,105
Operating lease right of use assets	21,718	22,804
	$ 1,187,599	$ 1,227,414
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$ 1,883	$ 1,907
Current installments of long-term debt	4,538	4,404
Accounts payable	54,586	51,763
Customer advances	13,124	6,886
Accrued compensation and benefits	26,627	38,348
Deferred profit	5,738	8,022
Accrued warranty	5,532	5,614
Income taxes payable	17,993	26,648
Other accrued liabilities	15,007	17,280
Total current liabilities	145,028	160,872
Long-term debt	37,719	72,664
Deferred income taxes	23,239	21,359
Noncurrent income tax liabilities	7,183	6,486
Accrued retirement benefits	10,162	10,363
Long-term lease liabilities	18,017	19,209
Other accrued liabilities	7,472	7,620
Stockholders' equity		
Preferred stock, $1 par value; 1,000 shares authorized, none issued	-	-
Common stock, $1 par value; 90,000 shares authorized, 49,283 shares issued and outstanding in 2023 and 49,276 shares in 2022	49,283	49,276
Paid-in capital	671,204	687,218
Treasury stock, at cost; 1,711 shares in 2023 and 1,767 shares in 2022	(50,786)	(58,043)
Retained earnings	306,087	290,402
Accumulated other comprehensive loss	(37,009)	(40,012)
Total stockholders' equity	938,779	928,841
	$ 1,187,599	$ 1,227,414

* Derived from December 31, 2022 audited financial statements

The accompanying notes are an integral part of these statements.

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

	Three Months Ended	
	April 1, 2023	March 26, 2022
Net sales	$ 179,371	$ 197,757
Cost and expenses:		
Cost of sales (1)	93,153	106,601
Research and development	22,510	23,106
Selling, general and administrative	34,189	31,246
Amortization of purchased intangible assets	8,754	8,535
Restructuring charges	888	576
	159,494	170,064
Income from operations	19,877	27,693
Other (expense) income:		
Interest expense	(1,128)	(981)
Interest income	2,718	111
Foreign transaction gain (loss)	(440)	1,144
Loss on extinguishment of debt	(369)	(104)
Income before taxes	20,658	27,863
Income tax provision	4,973	6,294
Net income	$ 15,685	$ 21,569
Income per share:		
Basic	$ 0.33	$ 0.44
Diluted	$ 0.33	$ 0.44
Weighted average shares used in computing income per share:		
Basic	47,343	48,778
Diluted	48,171	49,569

(1) Excludes amortization of $6,891 and $6,696 for the three months ended April 1, 2023 and March 26, 2022, respectively.

The accompanying notes are an integral part of these statements.

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

	Three Months Ended	
	April 1, 2023	March 26, 2022
Net income	$ 15,685	$ 21,569
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	2,701	(8,903)
Adjustments related to postretirement benefits	29	(61)
Change in unrealized gain/loss on investments	273	(348)
Other comprehensive income (loss), net of tax	3,003	(9,312)
Comprehensive income	$ 18,688	$ 12,257

The accompanying notes are an integral part of these statements.

COHU, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except par value and per share amounts)

Three Months Ended March 26, 2022	Common stock $1 par value	Paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total
Balance at December 25, 2021	$ 48,756	$ 674,777	$ 193,555	$ (27,262)	$ (7,324)	$ 882,502
Net income	-	-	21,569	-	-	21,569
Changes in cumulative translation adjustment	-	-	-	(8,903)	-	(8,903)
Adjustments related to postretirement benefits, net of tax	-	-	-	(61)	-	(61)
Changes in unrealized gains and losses on investments, net of tax	-	-	-	(348)	-	(348)
Shares issued for restricted stock units vested	426	(426)	-	-	-	-
Repurchase and retirement of stock	(157)	(4,739)	-	-	-	(4,896)
Common stock repurchases	-	-	-	-	(6,388)	(6,388)
Share-based compensation expense	-	3,422	-	-	-	3,422
Balance at March 26, 2022	$ 49,025	$ 673,034	$ 215,124	$ (36,574)	$ (13,712)	$ 886,897

Three Months Ended April 1, 2023	Common stock $1 par value	Paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total
Balance at December 31, 2022	$ 49,276	$ 687,218	$ 290,402	$ (40,012)	$ (58,043)	$ 928,841
Net income	-	-	15,685	-	-	15,685
Changes in cumulative translation adjustment	-	-	-	2,701	-	2,701
Adjustments related to postretirement benefits, net of tax	-	-	-	29	-	29
Changes in unrealized gains and losses on investments, net of tax	-	-	-	273	-	273
Shares issued for restricted stock units vested	7	(18,067)	-	-	18,060	-
Repurchase and retirement of stock	-	(1,861)	-	-	(7,322)	(9,183)
Common stock repurchases	-	-	-	-	(3,481)	(3,481)
Share-based compensation expense	-	3,914	-	-	-	3,914
Balance at April 1, 2023	$ 49,283	$ 671,204	$ 306,087	$ (37,009)	$ (50,786)	$ 938,779

The accompanying notes are an integral part of these statements.

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

	Three Months Ended	
	April 1, 2023	March 26, 2022
Cash flows from operating activities:		
Net income	$ 15,685	$ 21,569
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on extinguishment of debt	369	104
Net accretion on investments	(289)	-
(Gain) loss from sale of property, plant and equipment	43	(51)
Depreciation and amortization	12,091	11,667
Share-based compensation expense	3,914	3,422
Non-cash inventory related charges	1,993	647
Deferred income taxes	872	397
Changes in accrued retiree medical benefits	(181)	(10)
Changes in other accrued liabilities	(128)	(332)
Changes in other assets	208	(128)
Amortization of cloud-based software implementation costs	700	478
Interest capitalized associated with cloud computing implementation	-	(26)
Amortization of debt discounts and issuance costs	49	94
Operating lease right-of-use assets	1,316	1,343
Changes in assets and liabilities, excluding effects from acquisitions:		
Customer advances	6,192	6,101
Accounts receivable	5,364	(19,873)
Inventories	(5,164)	(1,123)
Other current assets	756	(5,675)
Accounts payable	75	(361)
Deferred profit	(2,300)	(2,141)
Income taxes payable	(8,180)	2,257
Accrued compensation, warranty and other liabilities	(15,545)	(15,059)
Current and long-term operating lease liabilities	(1,355)	(1,309)
Net cash provided by operating activities	16,485	1,991
Cash flows from investing activities, excluding effects from acquisitions:		
Purchases of short-term investments	(16,816)	(45,413)
Sales and maturities of short-term investments	62,989	43,250
Purchases of property, plant and equipment	(5,075)	(2,669)
Cash received from sale of property, plant and equipment	120	57
Payment for purchase of MCT, net of cash received	(26,933)	-
Net cash provided by (used in) investing activities	14,285	(4,775)
Cash flows from financing activities:		
Payments on current and long-term finance lease liabilities	(24)	(44)
Repurchases of common stock, net	(8,578)	(4,082)
Repayments of long-term debt	(35,290)	(9,056)
Acquisition of treasury stock	(3,481)	(5,949)
Net cash used in financing activities	(47,373)	(19,131)
Effect of exchange rate changes on cash and cash equivalents	911	(1,218)
Net decrease in cash and cash equivalents	(15,692)	(23,133)
Cash and cash equivalents at beginning of period	242,341	290,201
Cash and cash equivalents at end of period	$ 226,649	$ 267,068
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 3,760	$ 3,669
Inventory capitalized as property, plant and equipment	$ 317	$ 460
Property, plant and equipment purchases included in accounts payable	$ 235	$ 1,180
Cash paid for interest	$ 1,784	$ 606

The accompanying notes are an integral part of these statements.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
April 1, 2023

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 31, 2022, has been derived from our audited financial statements at that date. The interim condensed consolidated financial statements as of April 1, 2023, (also referred to as “the first quarter of fiscal 2023” and “the first three months of fiscal 2023”) and March 26, 2022, (also referred to as “the first quarter of fiscal 2022” and “the first three months of fiscal 2022”) are unaudited. However, in management’s opinion, these financial statements reflect all adjustments (consisting only of normal, recurring items) necessary to provide a fair presentation of our financial position, results of operations and cash flows for the periods presented. The first quarter of fiscal 2023 and 2022 were both comprised of 13 weeks.

Our interim results are not necessarily indicative of the results that should be expected for the full year. For a better understanding of Cohu, Inc. and our financial statements, we recommend reading these interim condensed consolidated financial statements in conjunction with our audited financial statements for the year ended December 31, 2022, which are included in our 2022 Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission (“SEC”). In the following notes to our interim condensed consolidated financial statements, Cohu, Inc. is referred to as “Cohu”, “we”, “our” and “us”.

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

Concentration of Credit Risk

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

Our trade accounts receivable are presented net of allowance for credit losses, which is determined in accordance with the guidance provided by Accounting Standards Codification (“ASC”) Topic 326, *Financial Instruments-Credit Losses,* (“ASC 326”). At both April 1, 2023 and December 31, 2022, our allowance for credit losses was $0.2 million. Our customers include semiconductor manufacturers and semiconductor test subcontractors and other customers located throughout the world. While we believe that our allowance for credit losses is adequate and represents our best estimate at April 1, 2023, we will continue to monitor customer liquidity and other economic conditions, which may result in changes to our estimates regarding expected credit losses.

Inventories

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

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

	April 1, 2023	December 31, 2022
Raw materials and purchased parts	$ 106,585	$ 106,041
Work in process	40,814	36,024
Finished goods	28,790	28,076
Total inventories	$ 176,189	$ 170,141

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)*:

	April 1, 2023	December 31, 2022
Land and land improvements	$ 7,252	$ 7,066
Buildings and building improvements	33,441	31,161
Machinery and equipment	106,262	105,109
	146,955	143,336
Less accumulated depreciation and amortization	(79,747)	(78,325)
Property, plant and equipment, net	$ 67,208	$ 65,011

Cloud-based Enterprise Resource Planning Implementation Costs

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

Unamortized capitalized cloud computing implementation costs totaled $14.0 million and $14.7 million at April 1, 2023, and December 31, 2022, respectively. These amounts are recorded within other current assets and other assets in our condensed consolidated balance sheets. During the fourth quarter of 2022 the final phase of ERP system development was completed. Implementation costs are amortized using the straight-line method over seven years and we recorded $0.7 million and $0.5 million in amortization expense during the three months ended April 1, 2023, and March 26, 2022, respectively.

Segment Information

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

Goodwill and Other Intangible Assets

We evaluate goodwill for impairment annually and when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting unit. If the fair value is determined to be less than the book value, a second step is performed to compute the amount of impairment as the difference between the fair value of the reporting unit and its carrying value, not to exceed the carrying value of goodwill. We estimate the fair values of our reporting units using a weighting of the income and market approaches. Under the income approach, we use a discounted cash flow methodology to derive an indication of value, which requires management to make significant estimates and assumptions related to forecasted revenues, gross profit margins, operating income margins, working capital cash flow, perpetual growth rates, and long-term discount rates, among others. For the market approach, we use the guideline public company method. Under this method we utilize information from comparable publicly traded companies with similar operating and investment characteristics as the reporting units, to create valuation multiples that are applied to the operating performance metrics of the reporting unit being tested, in order to obtain an indication of value. We then apply a 50/50 weighting to the indicated values from the income and market approaches to derive the fair values of the reporting units. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on customer forecasts, industry trade organization data and general economic conditions. Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and factors.

We conduct our annual impairment test as of October 1st of each year and have determined there was no impairment as of October 1, 2022, 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.

Other intangible assets 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 other intangible assets, impairment losses are only recorded if the asset's carrying amount is not recoverable through its undiscounted, probability-weighted future cash flows. We measure the impairment loss based on the difference between the carrying amount and estimated fair value.

During the first quarter of 2023, no events or conditions occurred suggesting an impairment in our goodwill, other intangible assets and long-lived assets.

Product Warranty

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

Restructuring Costs

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

Debt Issuance Costs

We capitalize costs related to the issuance of debt. Debt issuance costs that were directly related to our Term Loan B are presented within noncurrent liabilities as a reduction of long-term debt in our condensed consolidated balance sheets. The amortization of such costs is recognized as interest expense using the effective interest method over the term of the respective debt issue. Amortization related to deferred debt issuance costs and original discount costs was $49,000 and $0.1 million for the three months ended April 1, 2023 and March 26, 2022, respectively.

Foreign Remeasurement and Currency Translation

Assets and liabilities of our wholly owned foreign subsidiaries that use the U.S. Dollar as their functional currency are re-measured using exchange rates in effect at the end of the period, except for nonmonetary assets, such as inventories and property, plant and equipment, which are re-measured using historical exchange rates. Revenues and costs are re-measured using average exchange rates for the period, except for costs related to those balance sheet items that are re-measured using historical exchange rates. Gains and losses on foreign currency transactions are recognized as incurred. During the three months ended April 1, 2023, we recognized foreign exchange losses of $0.4 million, in our condensed consolidated statements of income. During the three months ended March 26, 2022, we recognized foreign exchange gains of $1.1 million.

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

Foreign Exchange Derivative Contracts

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

Share-Based Compensation

We measure and recognize all share-based compensation under the fair value method.

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

	Three Months Ended	
	April 1, 2023	March 26, 2022
Cost of sales	$ 180	$ 145
Research and development	866	752
Selling, general and administrative	2,868	2,525
Total share-based compensation	3,914	3,422
Income tax benefit	(2,776)	(1,626)
Total share-based compensation, net	$ 1,138	$ 1,796

Income Per Share

Basic income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted income per share includes the dilutive effect of common shares potentially issuable upon the exercise of stock options, vesting of outstanding restricted stock and performance stock units and issuance of stock under our employee stock purchase plan using the treasury stock method. In loss periods, potentially dilutive securities are excluded from the per share computations due to their anti-dilutive effect. For purposes of computing diluted income per share, stock options with exercise prices that exceed the average fair market value of our common stock for the period are excluded. For the three months ended April 1, 2023, approximately 112,000 shares of common stock were excluded from the computation. For the three months ended March 26, 2022, 224,000 shares were excluded from the computation. All shares repurchased and held as treasury stock are reflected as a reduction to our basic weighted average shares outstanding based on the trade date of the share repurchase.

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

	Three Months Ended	
	April 1, 2023	March 26, 2022
Weighted average common shares	47,343	48,778
Effect of dilutive securities	828	791
	48,171	49,569

Leases

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

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

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

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

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

Revenue Recognition

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

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

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

Unsatisfied performance obligations primarily represent contracts for products with future delivery dates. At April 1, 2023, we had $6.6 million of revenue expected to be recognized in the future related to performance obligations that were unsatisfied (or partially unsatisfied) for contracts with original expected durations of over one year. As allowed under ASC Topic 606, *Revenue from Contracts with Customers* ("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 Topic 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 April 1, 2023, we had deferred revenue totaling approximately $12.0 million, current deferred profit of $5.7 million and deferred profit expected to be recognized after one year included in noncurrent other accrued liabilities of $5.3 million. At December 31, 2022, we had deferred revenue totaling approximately $16.1 million, current deferred profit of $8.0 million and deferred profit expected to be recognized after one year included in noncurrent other accrued liabilities of $5.5 million.

Net sales by type are as follows *(in thousands):*

	Three Months Ended	
Disaggregated Net Sales	April 1, 2023	March 26, 2022
Systems	$ 102,984	$ 117,349
Non-systems	76,387	80,408
Total net sales	$ 179,371	$ 197,757

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

	Three Months Ended	
Disaggregated Net Sales	April 1, 2023	March 26, 2022
Malaysia	$ 31,895	$ 20,116
Philippines	31,790	24,385
China	21,110	38,653
United States	18,743	23,763
Taiwan	8,317	19,808
Rest of the World	67,516	71,032
Total net sales	$ 179,371	$ 197,757

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

	Three Months Ended	
	April 1, 2023	March 26, 2022
Customers individually accounting for more than 10% of net sales	two	one
Percentage of net sales	24%	11%

Accumulated Other Comprehensive Loss

Our accumulated other comprehensive loss balance totaled approximately $37.0 million and $40.0 million at April 1, 2023 and December 31, 2022, respectively, and was attributed to all non-owner changes in stockholders' equity and consists of, on an after-tax basis where applicable, foreign currency adjustments resulting from the translation of certain of our subsidiary accounts where the functional currency is not the U.S. Dollar, unrealized loss on investments and adjustments related to postretirement benefits. Reclassification adjustments from accumulated other comprehensive loss during the first three months of fiscal 2023 and 2022 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 three months of fiscal 2023 and 2022 was not significant.

New Accounting Pronouncements

There have been no material changes in recently issued or adopted accounting standards from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

2. Business Acquisitions, Goodwill and Purchased Intangible Assets

MCT

On January 30, 2023, we completed the acquisition of all the outstanding membership units of MCT Worldwide, LLC. ("MCT"), pursuant to a membership unit purchase agreement dated January 30, 2023, by and among MCT Worldwide, LLC, Arise Acquisition Co., LLC, The Seaport Group LLC Profit Sharing Plan, and Delta Design, Inc., a wholly owned subsidiary of Cohu ("the Acquisition"). MCT is a U.S. based company with its principal manufacturing site in Penang Malaysia. MCT provides automated solutions for the semiconductor industry and designs, manufactures, markets, services and distributes strip test handlers, film frame handlers and laser mark handlers. On January 30, 2023, we made a cash payment totaling approximately $28.0 million for MCT. The Acquisition is a debt free transaction and is subject to a working capital adjustment for the difference between the actual and estimated net working capital. Taking into consideration the impact of our estimated working capital adjustment and certain acquisition-related costs that were included in the transaction proceeds, our preliminary purchase price for MCT is $26.8 million. During the three-month period ended April 1, 2023, we incurred acquisition-related costs totaling $0.4 million, which were expensed as selling, general and administrative costs. During the prior year period ended March 26, 2022, no acquisition-related costs were incurred. The Acquisition has been accounted for in conformity with ASC Topic 805, *Business Combinations*, ("ASC 805").

We have not finalized the purchase price allocation. Accordingly, the preliminary purchase price allocation shown below could materially change as we are still in the process of settling the working capital adjustment with the sellers and the fair values of the tangible and intangible assets acquired and liabilities assumed, and the related income tax effects may still be adjusted as they are finalized during the remainder of the measurement period (which will not exceed 12 months from the acquisition closing date). The transaction was an asset acquisition for tax purposes, consequently, we will record a stepped-up tax basis in the acquired assets, including goodwill and intangibles. The acquired assets and liabilities of MCT were recorded at their respective fair values including an amount for goodwill representing the difference between the Acquisition consideration and the fair value of the identifiable net assets.

The table below summarizes the assets acquired and liabilities assumed as of January 30, 2023 (*in thousands*):

Current assets, including cash received	$	9,494
Property, plant and equipment		197
Other assets		356
Intangible assets		12,000
Goodwill		8,798
Total assets acquired		30,845
Liabilities assumed		(4,024)
Net assets acquired	$	26,821

The preliminary allocation of the intangible assets subject to amortization is as follows *(in thousands)*:

		Estimated Fair Value	Weighted Average Useful Life (years)
Developed technology	$	7,500	7.0
Customer relationships		4,000	10.0
Product backlog		500	0.5
Total intangible assets	$	12,000	

Acquired intangible assets reported above are being amortized using the straight-line method over their estimated useful lives which approximates the pattern of how the economic benefit is expected to be used. This includes amounts allocated to customer relationships because of anticipated high customer retention rates that are common in the semiconductor capital equipment industry.

The preliminary value assigned to developed technology was determined by using the using the relief from royalty method under the income approach, which included assumptions related to revenue growth rates, royalty rates, and discount rates. Developed technology, which comprises products that have reached technological feasibility, includes the products in MCT's product line. The revenue estimates used to value the developed technology were based on estimates of relevant market sizes and growth factors, expected trends in technology and the nature and expected timing of new product introductions by MCT and competitors. The estimated after-tax cash flows were based on a hypothetical royalty rate applied to the revenues for the developed technology. The discount rate utilized to discount the net cash flows of the developed technology to present value was based on the risk associated with the respective cash flows taking into consideration the perceived risk of the technology relative to the other acquired assets, the weighted average cost of capital, the internal rate of return, and the weighted average return on assets.

The preliminary value assigned to customer relationships was determined by using the multi-period excess earnings method under the income approach. The estimated cash flows were based on revenues from the existing customers net of operating expenses and net of contributory asset charges. The discount rate utilized to discount the net cash flows of the customer relationships to present value was based on the respective cash flows taking into consideration the perceived risks.

The preliminary value assigned to backlog acquired was estimated based upon the contractual nature of the backlog as of January 30, 2023, using the multi-period excess earnings method under the income approach to discount back to present value the cash flows attributable to the backlog at a discount rate commensurate with the expected risks of the backlog cash flows.

MCT's results of operations have been included starting January 30, 2023. The impact of MCT on Cohu's condensed consolidated statements of income and comprehensive income was not material.

Goodwill and Intangible Assets

Changes in the carrying value of goodwill during the year ended December 31, 2022, and the three-month period ended April 1, 2023 were as follows (*in thousands*):

		Goodwill
Balance, December 25, 2021	$	219,791
Impact of currency exchange		(6,252)
Balance, December 31, 2022		213,539
Additions		8,798
Impact of currency exchange		1,215
Balance, April 1, 2023	$	223,552

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

	April 1, 2023					December 31, 2022			
		Gross Carrying Amount		Accum. Amort.	Remaining Weighted Average Amort. Period (in years)		Gross Carrying Amount		Accum. Amort.
Developed technology	$	225,310	$	136,127	3.9	$	224,253	$	128,938
Customer relationships		76,500		32,490	6.7		64,632		31,015
Trade names		20,548		9,894	6.2		20,461		9,397
Covenant not-to-compete		265		166	3.8		269		161
Total intangible assets	$	322,623	$	178,677		$	309,615	$	169,511

Changes in the carrying values of purchased intangible assets presented above are a result of the impact of fluctuation in currency exchange rates and the acquisition of MCT.

Amortization expense related to intangible assets in the first quarter of fiscal 2023 and 2022 was $8.8 million and $8.5 million, respectively.

3. Borrowings and Credit Agreements

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

	April 1, 2023	December 31, 2022
Bank Term Loan under Credit Agreement	$ 31,952	$ 66,952
Bank Term Loans-Kita	2,383	2,466
Construction Loan- Cohu GmbH	8,269	8,414
Lines of Credit	1,883	1,907
Total debt	44,487	79,739
Less: financing fees and discount	(347)	(764)
Less: current portion	(6,421)	(6,311)
Total long-term debt	$ 37,719	$ 72,664

Credit Agreement

On October 1, 2018, we entered into a Credit Agreement providing for a $350.0 million Term Loan Credit Facility and borrowed the full amount to finance a portion of the Xcerra acquisition. Loans under the Term Loan Credit Facility amortize in equal quarterly installments of 0.25% of the original principal amount, with the balance payable at maturity. All outstanding principal and interest in respect of the Term Loan Credit Facility must be repaid on or before October 1, 2025. The loans under the Term Loan Credit Facility bear interest, at Cohu's option, at a floating annual rate equal to London Interbank Offered Rate ("LIBOR") plus a margin of 3.00%. At April 1, 2023, the outstanding loan balance, net of discount and deferred financing costs, was $31.6 million and $3.4 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 31, 2022, the outstanding loan balance, net of discount and deferred financing costs, was $66.2 million and $3.2 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. As of April 1, 2023, the fair value of the debt was $32.0 million. The measurement of the fair value of debt is based on the average of the bid and ask trading quotes as of April 1, 2023 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 April 1, 2023, we believe no such events of default have occurred.

During the first three months of 2023, we prepaid $34.1 million in principal of our Term Loan Credit Facility for $34.1 million in cash. We accounted for the prepayment as a debt extinguishment, which resulted in a loss of $0.4 million reflected in other expense, net, in our condensed consolidated statement of income and a $0.4 million reduction in debt discounts and deferred financing costs in our condensed consolidated balance sheets. During the first three months of 2022, we repurchased $7.0 million in principal of our Term Loan Credit Facility for $7.0 million in cash. This resulted in a loss of $0.1 million reflected in other expense in our condensed consolidated statement of income and a corresponding $0.1 million reduction in debt discounts and deferred financing costs in our condensed consolidated balance sheets. Approximately $32.0 million in principal of the Term Loan Credit Facility remains outstanding as of April 1, 2023.

Kita Term Loans

We have a series of term loans with Japanese financial institutions primarily related to the expansion of our facility in Osaka, Japan. The loans are collateralized by the facility and land, carry interest rates ranging from 0.05% to 0.43%, and expire at various dates through 2034. At April 1, 2023, the outstanding loan balance was $2.4 million and $0.2 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 31, 2022, the outstanding loan balance was $2.5 million and $0.2 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. The fair value of the debt approximates the carrying value at April 1, 2023.

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

Construction Loans

In July 2019 and June 2020, one of our wholly owned subsidiaries located in Germany entered into a series of construction loans (“Loan Facilities”) with a German financial institution initially providing it with total borrowings of up to €10.1 million. In May 2022, one of the construction loans was amended, reducing total borrowings provided under the loans to up to €9.5 million. The Loan Facilities were utilized to finance the expansion of our facility in Kolbermoor, Germany and are secured by the land and the existing building on the site. The Loan Facilities bear interest at agreed upon rates based on the facility amounts as discussed below.

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

At April 1, 2023, total outstanding borrowings under the Loan Facilities was $8.3 million with $1.0 million of the total outstanding balance being presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 31, 2022, total outstanding borrowings under the Loan Facilities was $8.4 million with $1.0 million of the total outstanding balance being presented as current installments of long-term debt in our condensed consolidated balance sheets. The loans are denominated in Euros and, as a result, amounts disclosed herein will fluctuate because of changes in currency exchange rates. The fair value of the debt approximates the carrying value at April 1, 2023.

Lines of Credit

As a result of our acquisition of Kita, we assumed a series of revolving credit facilities with various financial institutions in Japan. The credit facilities renew monthly and provide Kita with access to working capital totaling up to 960 million Japanese Yen of which 250 million Japanese Yen was drawn as of April 1, 2023. At April 1, 2023, total borrowings outstanding under the revolving lines of credit were $1.9 million. As these credit facility agreements renew monthly, they have been included in short-term borrowings in our condensed consolidated balance sheets.

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

Our wholly owned subsidiary in Switzerland has one line of credit which provides borrowings of up to a total of 2.0 million Swiss Francs, a portion of which is reserved for tax guarantees. The financial institution that provides the line of credit is requiring us to provide a corporate guarantee to access the line of credit and as of April 1, 2023 we are still in the process of executing the required documents. Until the documents are issued and accepted by the bank no amounts may be drawn on this line of credit. At April 1, 2023 and December 31, 2022 no amounts were outstanding under this line of credit.

4. Restructuring Charges

MCT Integration Program

During the first quarter of 2023, we began a strategic restructuring and integration program in connection with the acquisition of MCT (“MCT Integration Program”). See Note 2, “Business Acquisitions, Goodwill and Purchased Intangible Assets” for additional information regarding the acquisition of MCT. As part of this program, we intend to consolidate MCT’s Penang, Malaysia manufacturing operations into Cohu’s Melaka, Malaysia manufacturing operations by the end of 2023. Relating to the facility consolidation actions, we notified certain impacted employees of a reduction in force program and the facility consolidation and reduction in force programs are being implemented as part of a comprehensive review of our operations and are intended to reduce our operating cost structure and capitalize on acquisition synergies.

As a result of the activities described above, we recognized total pretax charges of $0.9 million for the three months ended April 1, 2023, that are within the scope of ASC 420.

The following table summarizes the activity within the restructuring related accounts for the MCT Integration Program during the three months ended April 1, 2023 *(in thousands)*:

	Severance and Other Payroll	Other Exit Costs	Total
Balance, December 31, 2022	$ -	$ -	$ -
Costs accrued	878	10	888
Amounts paid or charged	(707)	(10)	(717)
Balance, April 1, 2023	$ 171	$ -	$ 171

Xcerra Integration Program

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 ("Xcerra Integration Program"). As part of the Xcerra Integration Program we consolidated our global handler and contactor manufacturing operations and closed our manufacturing operations in Penang, Malaysia and Fontana, California in 2019.

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

As a result of the activities described above, we recognized total pretax charges of $0.4 million for the three months ended March 26, 2022, that are within the scope of ASC 420. Total pretax charges for the three months ended April 1, 2023 were not material.

Costs associated with restructuring activities are presented in our condensed consolidated statements of income as restructuring charges, except for certain costs associated with inventory charges related to the decision to end manufacturing of certain of Xcerra's semiconductor test handler products, which are classified within cost of sales. Other restructuring costs include expenses for professional fees associated with employee severance, impairments of fixed assets and building close expenses. As of December 31, 2022, restructuring activities associated with the Xcerra Integration Program were materially complete.

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

	Severance and Other Payroll	Other Exit Costs	Total
Balance, December 25, 2021	$ 348	$ -	$ 348
Costs accrued	(14)	590	576
Amounts paid or charged	(257)	(169)	(426)
Impact of currency exchange	(2)	-	(2)
Balance, March 26, 2022	$ 75	$ 421	$ 496

At April 1, 2023, our total accrual for both the MCT and Xcerra Integration Programs are 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)*:

	April 1, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
Corporate debt securities (2)	$ 36,670	$ 23	$ 149	$ 36,544
Bank certificates of deposit	24,500	11	23	24,488
U.S. treasury securities	23,137	47	286	22,898
Asset-backed securities	12,932	-	64	12,868
Foreign government security	848	-	-	848
	$ 98,087	$ 81	$ 522	$ 97,646

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
Corporate debt securities (2)	$ 59,283	$ 30	$ 240	$ 59,073
Bank certificates of deposit	36,500	20	41	36,479
U.S. treasury securities	34,614	1	418	34,197
Asset-backed securities	12,727	10	79	12,658
Foreign government security	828	-	-	828
	$ 143,952	$ 61	$ 778	$ 143,235

(1) As of April 1, 2023, the cost and fair value of investments with loss positions was approximately $66.3 million and $65.8 million, respectively. As of December 31, 2022, the cost and fair value of investments with loss positions was approximately $86.3 million and $85.5 million, respectively. We evaluated the nature of these investments, credit worthiness of the issuer and the duration of these impairments to determine if a credit loss exists. We have the ability and intent to hold these investments to maturity.

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

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

	April 1, 2023		December 31, 2022	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 66,392	$ 66,139	$ 112,956	$ 112,683
Due after one year through three years	31,695	31,507	30,996	30,552
	$ 98,087	$ 97,646	$ 143,952	$ 143,235

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 April 1, 2023 using:			
	Level 1	Level 2	Level 3	Total estimated fair value
Cash	$ 166,925	$ -	$ -	$ 166,925
U.S. treasury securities	-	29,886	-	29,886
Corporate debt securities	-	39,282	-	39,282
Asset-backed securities	-	12,869	-	12,869
Money market funds	-	49,998	-	49,998
Bank certificates of deposit	-	24,487	-	24,487
Foreign government security	-	848	-	848
	$ 166,925	$ 157,370	$ -	$ 324,295

	Fair value measurements at December 31, 2022 using:			
	Level 1	Level 2	Level 3	Total estimated fair value
Cash	$ 190,371	$ -	$ -	$ 190,371
Corporate debt securities	-	69,753	-	69,753
Money market funds	-	40,290	-	40,290
Bank certificates of deposit	-	37,480	-	37,480
U.S. treasury securities	-	34,196	-	34,196
Asset-backed securities	-	12,658	-	12,658
Foreign government security	-	828	-	828
	$ 190,371	$ 195,205	$ -	$ 385,576

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 April 1, 2023, there were 358,844 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 three months of fiscal 2023, we did not grant any stock options and did not issue any shares of our common stock on the exercise of options that were granted previously. At April 1, 2023, no stock options were exercisable and outstanding.

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. 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 April 1, 2023.

In the first three months of fiscal 2023, we awarded 305,816 RSUs and issued 357,532 shares of our common stock on vesting of previously granted awards and 2,562 shares were forfeited. At April 1, 2023, we had 914,964 RSUs outstanding with an aggregate intrinsic value of approximately $35.1 million and the weighted average remaining vesting period was approximately 1.7 years.

Performance Stock Units

We also grant performance stock units ("PSUs") to senior executives as a part of our long-term equity compensation program. The number of shares of common stock that will ultimately be issued to settle PSUs granted ranges from 0% to 200% of the number granted and is determined based on certain performance criteria over a three-year measurement period. The performance criteria for the PSUs are based on a combination of our annualized Total Shareholder Return ("TSR") for the performance period and the relative performance of our TSR compared with the Russell 2000 Index (RUT) for the performance period. PSUs granted vest 100% on the third anniversary of their grant, assuming achievement of the applicable performance criteria.

We estimate the fair value of the PSUs using a Monte Carlo simulation model on the date of grant. Compensation expense is recognized ratably over the explicit service period. To the extent applicable performance conditions are satisfied, shares of our common stock are 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 three months of fiscal 2023, we awarded 256,073 PSUs, we issued 257,845 shares of our common stock on vesting of previously granted awards and no shares were forfeited. At April 1, 2023, we had 401,452 PSUs outstanding with an aggregate intrinsic value of approximately $15.4 million and the weighted average remaining vesting period was approximately 2.2 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 three months of fiscal 2023, no shares of our common stock were sold to our employees under the ESPP leaving 346,498 shares available for future issuance as of April 1, 2023.

7. Derivative Financial Instruments

Foreign Exchange Derivative Contracts

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

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

The fair value of our foreign exchange derivative contracts was determined based on current foreign currency exchange rates and forward points. All our foreign exchange derivative contracts outstanding at April 1, 2023 will mature during the second quarter of fiscal 2023.

The following table provides information about our foreign currency forward contracts outstanding as of April 1, 2023 *(in thousands)*:

Currency	Contract Position	Contract Amount (Local Currency)	Contract Amount (U.S. Dollars)
Euro	Buy	116,835	$ 127,000
Swiss Franc	Buy	24,621	27,000
Malaysian Ringgit	Buy	8,779	2,000
South Korean Won	Buy	2,604,000	2,000
Japanese Yen	Buy	66,240	500
			$ 158,500

Our foreign currency contracts are classified within Level 2 of the fair value hierarchy as they are valued using pricing models that utilize observable market inputs. The fair values of foreign currency contracts outstanding at April 1, 2023 were immaterial.

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

		Three months ended	
Derivatives not designated as hedging instruments	Location of gain (loss) recognized on derivatives	April 1, 2023	March 26, 2022
Foreign exchange forward contracts	Foreign transaction gain (loss)	$ 1,081	$ (1,410)

8. Equity

Share Repurchase Program

On October 28, 2021, we announced that our Board of Directors authorized a $70 million share repurchase program. On October 25, 2022, our Board of Directors authorized an additional $70 million under the share repurchase program. This share repurchase program was effective as of November 2, 2021 and has no expiration date, and the timing of share repurchases and the number of shares of common stock to be repurchased will depend upon prevailing market conditions and other factors. Repurchases under this program will be made using our existing cash resources and may be commenced or suspended from time-to-time at our discretion without prior notice. Repurchases may be made in the open market, through 10b5-1 programs, or in privately negotiated transactions at prevailing market rates in accordance with federal securities laws. During the three months ended April 1, 2023, we repurchased 99,682 shares of our common stock for $3.5 million to be held as treasury stock. During the three months ended March 26, 2022, we repurchased 213,706 shares of our common stock for $6.4 million to be held as treasury stock. As of April 1, 2023, $78.5 million of shares of our common stock remained available for us to repurchase under our share repurchase program.

9. Income Taxes

We used the estimated annual effective tax rate ("ETR") expected to be applicable for the full fiscal year in computing our tax provision. The ETR on income for the three months ended April 1, 2023 was 24.1%. Our first quarter 2023 ETR reflects the impact of certain foreign earnings taxed at rates higher than the U.S. statutory rate, offset by the impact of excess tax benefits relating to stock-based compensation and the tax benefit of U.S research & development and foreign tax credits.

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

In accordance with the disclosure requirements as described in ASC Topic 740, Income Taxes, we have classified unrecognized tax benefits as non-current income tax liabilities, or a reduction in non-current deferred tax assets, unless expected to be paid within one year. Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. There were no material changes to our unrecognized tax benefits and interest accrued related to unrecognized tax benefits during the three months ended April 1, 2023 and March 26, 2022.

10. Leases

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

Our leases have remaining lease terms of 1 year to 35 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:

(in thousands)	Classification	April 1, 2023	December 31, 2022
Assets			
Operating lease assets	Operating lease right-of-use assets	$ 21,718	$ 22,804
Finance lease assets	Property, plant and equipment, net (1)	322	323
Total lease assets		$ 22,040	$ 23,127
Liabilities			
Current			
Operating	Other accrued liabilities	$ 5,111	$ 4,927
Finance	Other accrued liabilities	36	49
Noncurrent			
Operating	Long-term lease liabilities	17,987	19,185
Finance	Long-term lease liabilities	30	24
Total lease liabilities		$ 23,164	$ 24,185
Weighted-average remaining lease term (years)			
Operating leases		6.1	6.2
Finance leases		2.1	1.7
Weighted-average discount rate			
Operating leases		6.2%	6.2%
Finance leases		2.0%	2.2%

(1) Finance lease assets are recorded net of accumulated amortization of $0.2 million as of April 1, 2023 and December 31, 2022.

The components of lease expense were as follows:

	Three Months Ended	
(in thousands)	April 1, 2023	March 26, 2022
Operating leases	$ 1,679	$ 1,716
Variable lease expense	559	537
Short-term operating leases	6	1
Finance leases		
Amortization of leased assets	26	32
Sublease income	(10)	(20)
Net lease cost	$ 2,260	$ 2,266

Future minimum lease payments at April 1, 2023, are as follows:

(in thousands)	Operating leases	Finance leases	Total
2023	$ 4,744	$ 32	$ 4,776
2024	5,909	17	5,926
2025	5,260	16	5,276
2026	2,862	3	2,865
2027	1,783	-	1,783
Thereafter	7,910	-	7,910
Total lease payments	28,468	68	28,536
Less: Interest	(5,370)	(2)	(5,372)
Present value of lease liabilities	$ 23,098	$ 66	$ 23,164

Supplemental cash flow information related to leases was as follows:

	Three Months Ended	
(in thousands)	April 1, 2023	March 26, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 1,675	$ 1,703
Financing cash flows from finance leases	$ 24	$ 44
Leased assets obtained in exchange for new operating lease liabilities	$ 95	$ 1,169
Financing lease assets acquired in MCT acquisition	$ 19	$ -
Operating lease assets acquired in MCT acquisition	$ 130	$ -

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.

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	
	April 1, 2023	March 26, 2022
Balance at beginning of period	$ 6,214	$ 7,691
Warranty expense accruals	1,980	2,047
Warranty payments	(2,146)	(2,891)
Liability acquired	67	-
Balance at end of period	$ 6,115	$ 6,847

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 $0.6 million at both April 1, 2023 and December 31, 2022.

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

This Form 10-Q contains certain forward-looking statements including expectations of market conditions, challenges and plans, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the Safe Harbor provisions created by that statute. Such forward-looking statements are based on management's current expectations and beliefs, including estimates and projections about our business and include, but are not limited to, statements concerning financial position, business strategy, our industry environment, market growth expectations, and plans or objectives for future operations. Forward-looking statements are not guarantees of future performance, and are subject to certain risks, uncertainties, and assumptions that are difficult to predict and may cause actual results to differ materially from management's current expectations. Such risks and uncertainties include those set forth in this Quarterly Report on Form 10-Q and our 2022 Annual Report on Form 10-K under the heading "Item 1A. Risk Factors". The forward-looking statements in this report speak only as of the time they are made, and do not necessarily reflect management's outlook at any other point in time. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or for any other reason, however, readers should carefully review the risk factors set forth in other reports or documents we file from time to time with the SEC after the date of this Quarterly Report. This Form 10-Q also contains estimates, projections and other information concerning our industry, our business, and the markets for certain of our products. Information that is based on estimates, forecasts, projections, market research or similar methodologies is inherently subject to uncertainties and actual events or circumstances may differ materially from events and circumstances reflected in this information. Unless otherwise expressly stated, we obtained this industry, business, market, and other data from reports, research surveys, studies, and similar data prepared by market research firms and other third parties, industry, and general publications, government data, and similar sources.

OVERVIEW

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

In 2023, global macroeconomic and geopolitical factors are shaping the semiconductor industry. In response to the higher cost of capital, many chip companies are cutting costs, reducing employee headcount, and pushing out capital expenditures for additional capacity. For the first quarter ended April 1, 2023, on a sequential, quarter-over-quarter basis, our consolidated net sales declined 6.1% to $179.4 million due to lower demand for automotive, mobility, and 5G-related products because of the market conditions outlined above. Over the past twelve months, we have seen improvements in our gross margin due to favorable product mix, and increased insourcing of contactor manufacturing. Also, price increases offset cost increases in our supply chain. Based on the strength of current business conditions and the results from our operations, we have continued to take actions to reduce outstanding principal under our Term Loan Credit Facility through voluntary prepayments, and we have also repurchased 99,682 shares of our common stock for approximately $3.5 million during the first three months of 2023.

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

Application of Critical Accounting Estimates and Policies

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

Our critical accounting estimates that we believe are the most important to an investor’s understanding of our financial results and condition and that require complex management judgment include:

- revenue recognition, including the deferral of revenue on sales to customers, which impacts our results of operations;
- estimation of valuation allowances and accrued liabilities, specifically inventory reserves, which impact gross margin or operating expenses;
- the recognition and measurement of current and deferred income tax assets and liabilities, unrecognized tax benefits, the valuation allowance on deferred tax assets and accounting for the impact of the change to U.S. tax law as described herein, which impact our tax provision, and
- the assessment of recoverability of long-lived and indefinite-lived assets including goodwill and other intangible assets, which primarily impacts gross margin or operating expenses if we are required to record impairments of assets or accelerate their depreciation.

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 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 April 1, 2023, we had $6.6 million of revenue expected to be recognized in the future related to performance obligations that were unsatisfied (or partially unsatisfied) for contracts with original expected durations of over one year. As allowed under ASC 606, we have opted to not disclose unsatisfied performance obligations for contracts with original expected durations of less than one year. We generally sell our equipment with a product warranty. The product warranty provides assurance to customers that delivered products are as specified in the contract (an “assurance-type warranty”). Therefore, we account for such product warranties under ASC 460, 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 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 the condensed consolidated balance sheet representing the difference between the receivable recorded and the inventory shipped.

Accounts Receivable: We maintain an allowance for credit losses for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required. Our customers include semiconductor manufacturers and semiconductor test subcontractors throughout many areas of the world. While we believe that our allowance for credit losses is adequate and represents our best estimate of future losses, we will continue to monitor customer liquidity and other economic conditions, which may result in changes to our estimates.

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

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

Segment Information: We applied the provisions of ASC 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. Under ASC 280, an operating segment is defined as a component that engages in business activities whose operating results are reviewed by the chief operating decision maker and for which discrete financial information is available. We have determined that our three identified operating segments are: THG, STG and ISG. Our THG, STG and ISG operating segments qualify for aggregation under ASC 280 due to similarities in their customers, their economic characteristics, and the nature of products and services provided. As a result, we report in one segment, Semiconductor Test & Inspection.

Goodwill and Other Intangible Assets: We evaluate goodwill for impairment annually and when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting unit. If the fair value is determined to be less than the book value, a second step is performed to compute the amount of impairment as the difference between the fair value of the reporting unit and its carrying value of goodwill, not to exceed the carrying value of goodwill. We estimate the fair values of our reporting units using a weighting of the income and market approaches. Under the income approach, we use a discounted cash flow methodology to derive an indication of value, which requires management to make significant estimates and assumptions related to forecasted revenues, gross profit margins, operating income margins, working capital cash flow, perpetual growth rates, and long-term discount rates, among others. For the market approach, we use the guideline public company method. Under this method we utilize information from comparable publicly traded companies with similar operating and investment characteristics as the reporting units, to create valuation multiples that are applied to the operating performance metrics of the reporting unit being tested, in order to obtain an indication of value. We then apply a 50/50 weighting to the indicated values from the income and market approaches to derive the fair values of the reporting units. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on customer forecasts, industry trade organization data and general economic conditions. Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and factors.

We conduct our annual impairment test as of October 1st of each year and have determined there was no impairment as of October 1, 2022, as the estimated fair values of our reporting units 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.

Other intangible assets 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 other intangible assets, impairment losses are only recorded if the asset's carrying amount is not recoverable through its undiscounted, probability-weighted future cash flows. We measure the impairment loss based on the difference between the carrying amount and estimated fair value.

During the first three months of 2023, no events or conditions occurred suggesting an impairment in our goodwill and other intangible 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.

Recent Accounting Pronouncements

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

RESULTS OF OPERATIONS

Recent Transactions Impacting Results of Operations

On January 30, 2023, we completed the acquisition of MCT and the results of its operations have been included in our condensed consolidated financial statements since that date.

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

	Three Months Ended	
	April 1, 2023	March 26, 2022
Net sales	100.0%	100.0%
Cost of sales	(51.9)%	(53.9)%
Gross margin	48.1%	46.1%
Research and development	(12.5)%	(11.7)%
Selling, general and administrative	(19.1)%	(15.8)%
Amortization of purchased intangible assets	(4.9)%	(4.3)%
Restructuring charges	(0.5)%	(0.3)%
Income from operations	11.1%	14.0%

First Quarter of Fiscal 2023 Compared to First Quarter of Fiscal 2022

Net Sales

Our consolidated net sales decreased 9.3% to $179.4 million in 2023, compared to $197.8 million in 2022. As compared to the prior year, during the first three months of 2023 our net sales declined due to the current macroeconomic environment which is driving lower demand for automotive, mobility (including 5G-related products) and computing applications. Our consolidated net sales in the first quarter of 2023 also include the net sales of MCT, which was acquired on January 30, 2023, and totaled $4.5 million.

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

Gross margin consists of net sales less cost of sales. Cost of sales consists primarily of materials, assembly and test labor, and overhead from operations. Our gross margin can fluctuate due to several factors, including, but not limited to, the mix and volume of products sold, product support costs, material, labor, supplier, logistics and other operating cost changes, changes to inventory reserves or the sale of previously reserved inventory and utilization of manufacturing capacity. Our gross margin, as a percentage of net sales for the first fiscal quarter, was 48.1% in 2023 and 46.1% in 2022. Our gross margin for the first fiscal quarter of 2023 improved compared to the prior year due to favorable product mix and increased insourcing of contactor manufacturing.

Our gross margin can be impacted by charges to cost of sales related to excess, obsolete and lower of cost or net realizable value inventory issues. During the first quarter of 2023 and 2022, we recorded charges to cost of sales of $1.9 million and $0.8 million for excess and obsolete inventory, respectively. While we believe our reserves for excess and obsolete inventory and lower of cost or net realizable value concerns are adequate to cover known exposures as of April 1, 2023, 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 $22.5 million in 2023 and $23.1 million in 2022 representing 12.5% and 11.7% of net sales, respectively. R&D expense decreased during the first fiscal quarter of 2023 due to lower spending on material costs associated with product development during the current year. The first quarter of 2023 includes $0.2 million of incremental R&D costs from MCT.

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 $34.2 million or 19.1% of net sales in 2023, compared to $31.2 million or 15.8% in 2022. SG&A expense increased during the first fiscal quarter of 2023 because of higher costs incurred in the current year for labor, product support, travel and professional services. The first quarter of 2023 also includes $0.3 million of incremental SG&A costs from the operations of MCT and $0.4 million of transaction related costs incurred specifically related to the acquisition of MCT.

Amortization of Purchased Intangible Assets

Amortization of purchased intangibles is the process of expensing the cost of an intangible asset acquired through a business combination over the projected life of the asset. Amortization of acquisition-related intangible assets was $8.8 million and $8.5 million in the first quarter of 2023 and 2022, respectively. The increase in expense recorded during the current year was a result of the amortization of acquired intangible assets from MCT.

Restructuring Charges

During the first quarter of 2023, we began a strategic restructuring and integration program in connection with the acquisition of MCT. In addition, 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. Restructuring charges recorded in the first fiscal quarter of 2023 and 2022 were $0.9 million and $0.6 million, respectively. Restructuring costs incurred in the first fiscal quarter of 2023 relate to the integration of MCT which was acquired on January 30, 2023, whereas restructuring expense recorded during the prior year was related to the integration of Xcerra.

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

Interest Expense and Income

Interest expense was $1.1 million and $1.0 million in the first fiscal quarter of 2023 and 2022, respectively. While we have significantly reduced the outstanding balance of our Term Loan Credit Facility during 2023, the increase in LIBOR during the first quarter of 2023 resulted in interest expense being higher on a year-over-year basis.

Interest income was $2.7 million and $0.1 million in the first fiscal quarter of 2023 and 2022, respectively. The increase in interest income year-over-year is a result of higher rates and higher investment balances maintained during the course of the first quarter of 2023.

Income Taxes

We used the estimated annual ETR expected to be applicable for the full fiscal year in computing our tax provision. The ETR on income for the three months ended April 1, 2023 was 24.1%. Our first quarter 2023 ETR reflects the impact of certain foreign earnings taxed at rates higher than the U.S. statutory rate, offset by the impact of excess tax benefits relating to stock-based compensation and the tax benefit of U.S research & development and foreign tax credits.

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

In accordance with the disclosure requirements as described in ASC 740, we have classified unrecognized tax benefits as non-current income tax liabilities, or a reduction in non-current deferred tax assets, unless expected to be paid within one year. Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. There were no material changes to our unrecognized tax benefits and interest accrued related to unrecognized tax benefits during the three months ended April 1, 2023 and March 26, 2022.

On August 9, 2022, President Biden signed into law the CHIPS and Science Act, and on August 19, 2022, the Inflation Reduction Act. The new legislations provide tax incentives as well as impose a 15% minimum tax on certain corporations’ book income and a 1% excise tax on certain stock buybacks. While we may be subject to the new excise tax on certain stock buybacks if our repurchase exceed the $1 million threshold, the enactment of both the CHIPS and Science Act and Inflation Reduction Act did not result in any material adjustments to our income tax provision for the three months ended April 1, 2023.

Net Income

As a result of the factors set forth above, our net income was $15.7 million for the three months ended April 1, 2023. For the three months ended March 26, 2022 our net income was $21.6 million.

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 April 1, 2023, $176.4 million or 77.8% 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.

Cohu, Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations
April 1, 2023

At April 1, 2023, our total indebtedness, net of discount and deferred financing costs, was $44.1 million, which included $31.6 million outstanding under the Term Loan Credit Facility, $2.4 million outstanding under Kita's term loans, $8.3 million outstanding under Cohu GmbH's construction loan and $1.9 million outstanding under Kita's lines of credit. During the first three months of fiscal 2023, we prepaid $34.1 million in principal of our Term Loan Credit Facility and we repurchased 99,682 shares of our outstanding common stock, to be held as treasury stock, for $3.5 million.

Liquidity

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

(in thousands)	April 1, 2023	December 31, 2022	Decrease	Percentage Change
Cash, cash equivalents and short-term investments	$ 324,295	$ 385,576	$ (61,281)	(15.9)%
Working capital	$ 564,468	$ 603,979	$ (39,511)	(6.5)%

Cash Flows

Operating Activities: Operating cash flows for the first three months of fiscal 2023 consisted of our net income, adjusted for non-cash expenses and changes in operating assets and liabilities. These adjustments include depreciation expense on property, plant and equipment, share-based compensation expense, amortization of intangible assets, deferred income taxes, amortization of cloud-based software implementation costs, loss on extinguishment of debt, capitalized interest associated with cloud computing implementation, amortization of debt discounts and issuance costs and sales of property, plant and equipment. Our net cash provided by operating activities in the first three months of fiscal 2023 totaled $16.5 million. Excluding the impact of the acquisition of MCT, net cash provided by operating activities was impacted by changes in current assets and liabilities and included increases in customer advances of $6.2 million, inventories of $5.2 million and decreases in accrued compensation, warranty and other liabilities of $15.5 million, income taxes payable of $8.2 million, accounts receivable of $5.4 million and deferred profit of $2.3 million. The increase in customer advances represents cash received from customers in advance of product shipments that are expected to occur during 2023. Purchases of materials from suppliers made to fulfill anticipated future shipments of products resulted in an increase in inventory. Accrued compensation, warranty and other liabilities decreased due to payments of incentive compensation related to the prior year that was paid during the first quarter of 2023. The income taxes payable decrease was driven by an excess of payments over accruals, the decrease in accounts receivable was due to the timing of cash collections on net sales recognized in the first quarter of 2023 and the recognition of revenue that was previously deferred in accordance with our revenue recognition policy resulted in the decrease in deferred profit.

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 three months of fiscal 2023 totaled $14.3 million. In the first three months of fiscal 2023 we generated $63.0 million from sales and maturities and used $16.8 million of cash for purchases of short-term investments. We invest our excess cash, in an attempt to seek the highest available return while preserving capital, in short-term investments since excess cash may be required for a business-related purpose. During the first quarter of 2023, we also used $26.9 million of cash, net of cash received, for the acquisition of MCT which was a strategic transaction for our test handler group, adding strip, film-frame and laser marking to Cohu's product portfolio, and critical technologies that will accelerate development into the growing advanced package test market. Additions to property, plant and equipment of $5.1 million were made to support our operating and development activities and include amounts related to the expansion of our Philippines factory to support our interface business.

Financing Activities: Financing cash flows consist primarily of net proceeds from the issuance of common stock under our stock option and employee stock purchase plans, repurchases of shares made under our share repurchase program and repayments of debt, net of new borrowings. We issue restricted stock units and maintain an employee stock purchase plan as components of our overall employee compensation. In the first three months of fiscal 2023, 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 $8.6 million. We made payments totaling $3.5 million in the first three months of 2023 for shares of our common stock repurchased under our share repurchase program to be held as treasury stock. Repayments of short-term borrowings and long-term debt during the first three months of fiscal 2023 totaled $35.3 million.

Share Repurchase Program

On October 28, 2021, we announced that our Board of Directors authorized a $70 million share repurchase program. On October 25, 2022, our Board of Directors authorized an additional $70 million under the share repurchase program. This share repurchase program was effective as of November 2, 2021, has no expiration date, and the timing of share repurchases and the number of shares of common stock to be repurchased will depend upon prevailing market conditions and other factors. Repurchases under this program will be made using our existing cash resources and may be commenced or suspended from time-to-time at our discretion without prior notice. Repurchases may be made in the open market, through 10b5-1 programs, or in privately negotiated transactions at prevailing market rates in accordance with federal securities laws. For the three months ended April 1, 2023, we repurchased 99,682 shares of our common stock for $3.5 million to be held as treasury stock. As of April 1, 2023, $78.5 million of shares of our common stock remained available for us to repurchase under our share repurchase program.

Capital Resources

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

Credit Agreement

On October 1, 2018, we entered into a Credit Agreement providing for a $350.0 million Term Loan Credit Facility and borrowed the full amount to finance a portion of the Xcerra acquisition. Loans under the Term Loan Credit Facility amortize in equal quarterly installments of 0.25% of the original principal amount, with the balance payable at maturity. All outstanding principal and interest in respect of the Term Loan Credit Facility must be repaid on or before October 1, 2025. The loans under the Term Loan Credit Facility bear interest, at Cohu’s option, at a floating annual rate equal to LIBOR plus a margin of 3.00%. At April 1, 2023, the outstanding loan balance, net of discount and deferred financing costs, was $31.6 million and $3.4 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 31, 2022, the outstanding loan balance, net of discount and deferred financing costs, was $66.2 million and $3.2 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 April 1, 2023, we believe no such events of default have occurred.

During the first three months of 2023, we prepaid $34.1 million in principal of our Term Loan Credit Facility for $34.1 million in cash. We accounted for the prepayment as a debt extinguishment, which resulted in a loss of $0.4 million reflected in other expense, net, in our condensed consolidated statement of income and a $0.4 million reduction in debt discounts and deferred financing costs in our condensed consolidated balance sheets. During the first three months of 2022, we repurchased $7.0 million in principal of our Term Loan Credit Facility for $7.0 million in cash. This resulted in a loss of $0.1 million reflected in other expense in our condensed consolidated statement of income and a corresponding $0.1 million reduction in debt discounts and deferred financing costs in our condensed consolidated balance sheets. Approximately $32.0 million in principal of the Term Loan Credit Facility remained outstanding as of April 1, 2023.

Kita Term Loans

We have a series of term loans with Japanese financial institutions primarily related to the expansion of our facility in Osaka, Japan. The loans are collateralized by the facility and land, carry interest rates ranging from 0.05% to 0.43%, and expire at various dates through 2034. At April 1, 2023, the outstanding loan balance was $2.4 million and $0.2 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 31, 2022, the outstanding loan balance was $2.5 million and $0.2 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. The term loans are denominated in Japanese Yen and, as a result, amounts disclosed herein will fluctuate because of changes in currency exchange rates.

Construction Loans

In July 2019 and June 2020, one of our wholly owned subsidiaries located in Germany entered into a series of Loan Facilities with a German financial institution initially providing it with total borrowings of up to €10.1 million. In May 2022, one of the construction loans was amended, reducing total borrowings provided under the loans to up to €9.5 million. The Loan Facilities were utilized to finance the expansion of our facility in Kolbermoor, Germany and are secured by the land and the existing building on the site. The Loan Facilities bear interest at agreed upon rates based on the facility amounts as discussed below.

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

At April 1, 2023, total outstanding borrowings under the Loan Facilities was $8.3 million with $1.0 million of the total outstanding balance being presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 31, 2022, total outstanding borrowings under the Loan Facilities was $8.4 million with $1.0 million of the total outstanding balance being presented as current installments of long-term debt in our condensed consolidated balance sheets. The loans are denominated in Euros and, as a result, amounts disclosed herein will fluctuate because of changes in currency exchange rates. The fair value of the debt approximates the carrying value at April 1, 2023.

Lines of Credit

As a result of our acquisition of Kita, we assumed a series of revolving credit facilities with various financial institutions in Japan. The credit facilities renew monthly and provide access to working capital totaling up to 960 million Japanese Yen of which 250 million Japanese Yen was drawn as of April 1, 2023. At April 1, 2023, total borrowings outstanding under the revolving lines of credit were $1.9 million. As these credit facility agreements renew monthly, they have been included in short-term borrowings in our condensed consolidated balance sheets.

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

Our wholly owned subsidiary in Switzerland has one line of credit which provides borrowings of up to a total of 2.0 million Swiss Francs, a portion of which is reserved for tax guarantees. The financial institution that provides the line of credit is requiring us to provide a corporate guarantee to access the line of credit and as of April 1, 2023 we are still in the process of executing the required documents. Until the documents are issued and accepted by the bank no amounts may be drawn on this line of credit. At April 1, 2023 and December 31, 2022, 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 April 1, 2023, $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. During the first three months of 2023, we prepaid $34.1 million in outstanding principal of our Term Loan Credit Facility. Aside from the repayment of outstanding principal of our Term Loan Credit Facility, there were no material changes to these obligations outside the ordinary course of business from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

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 April 1, 2023, $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 April 1, 2023, our investment portfolio included short-term fixed-income investment securities with a fair value of approximately $97.6 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 credit losses 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 April 1, 2023, the cost and fair value of investments we held with loss positions were approximately $66.3 million and $65.8 million, respectively. We evaluated the nature of these investments, credit worthiness of the issuer and the duration of these impairments to determine if a credit loss exists. We have the ability and intent to hold these investments to maturity.

Our long-term debt is carried at amortized cost and immaterial fluctuations in interest rates do not impact our consolidated financial statements. However, the fair value of our debt will generally fluctuate with movements of interest rates, increasing in periods of declining rates of interest and declining in periods of increasing rates of interest. As of April 1, 2023, we have approximately $31.6 million of long-term debt under a Term Loan Credit Facility that is subject to quarterly interest payments that are based on either a base rate plus a margin of up to 2.0% per annum, or LIBOR plus a margin of up to 3.0% per annum. The selection of the interest rate formula is at our discretion. The interest rate otherwise payable under the Term Loan Credit Facility will be subject to increase by 2.0% per annum during the continuance of a payment default and may be subject to increase by 2.0% per annum with respect to the overdue principal amount of any loans outstanding and overdue interest payments and other overdue fees and amounts. At April 1, 2023, the interest rate in effect on these borrowings was 7.8%. In July 2017, the UK’s Financial Conduct Authority (“FCA”), which regulates the LIBOR, announced that it intended to phase out LIBOR by the end of 2021. In March 2021, the FCA announced an extension of the phase out in the case of U.S. dollar settings for certain tenors until the end of June 2023. Various central bank committees and working groups continue to discuss replacement of benchmark rates, the process for amending existing LIBOR-based contracts, and the potential economic impacts of different alternatives. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2023. While the U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, has chosen the secured overnight financing rate (“SOFR”) as the recommended risk-free reference rate for the U.S, we cannot currently predict the extent to which this index will gain widespread acceptance as a replacement for LIBOR. We cannot currently predict the effect of the discontinuation of, or other changes to, LIBOR or any establishment of alternative reference rates in the United States, the European Union or elsewhere on the global capital markets. The uncertainty regarding the future of LIBOR, as well as the transition from LIBOR to any alternative reference rate or rates, could have adverse impacts on floating rate obligations, loans, deposits, derivatives and other financial instruments that currently use LIBOR as a benchmark rate. Our Term Loan Credit Facility constitutes our most significant exposure to this transition and there is no guarantee that a shift from LIBOR to a new reference rate will not result in increases to our borrowing costs.

Foreign Currency Exchange Risk.

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

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

Fluctuations in currency exchange rates also impact the U.S. Dollar amount of our net investment in foreign operations. The assets and liabilities of our foreign subsidiaries are translated into U.S. Dollars at the exchange rates in effect at the balance sheet date. Income and expense accounts are translated at an average exchange rate during the period which approximates the rates in effect at the transaction dates. The resulting translation adjustments are recorded in stockholders’ equity as a component of accumulated other comprehensive loss. As a result of fluctuations in certain foreign currency exchange rates in relation to the U.S. Dollar as of April 1, 2023, compared to December 31, 2022, our stockholders’ equity increased by $2.7 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 April 1, 2023 would result in an approximate $35.8 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 April 1, 2023 would result in an approximate $35.8 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 April 1, 2023, we did not make any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth above under Note 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 most significant risk factors applicable to Cohu are described in Part I, Item 1A (Risk Factors) of Cohu's Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (our "2022 Form 10-K"). There have been no material changes to the risk factors previously disclosed in our 2022 Form 10-K, except that we have updated the risk factors set forth below to reflect events occurring since the filing of our 2022 Form 10-K.

Risks Relating to our Indebtedness, Financing and Future Access to Capital

We are exposed to the instability of financial institutions where we maintain cash deposits or other liquid holdings, including federally insured banks, which could result in a lack of liquidity and have an impact to Cohu's overall financial performance.

To ensure financial flexibility, we maintain a substantial amount of cash deposit holdings in financial banks that exceed the limits insured by the Federal Deposit Insurance Corporation ("FDIC"). A bank failure, default, or other adverse events that restrict the ability of financial institutions to perform, including elevated concerns of such potential events that are rapidly communicated across media platforms, may lead to liquidity constraints for those institutions. On March 10, 2023, Silicon Valley Bank ("SVB"), formerly the country's 16th largest bank by total assets, experienced a significant and rapid withdrawal of funds that led to its collapse. The FDIC determined that it would guarantee all deposit amounts held at SVB, including amounts above FDIC insurance limits. However, there is no guarantee that the FDIC will similarly protect deposit amounts held above insurance limits if other banks were to fail or other adverse conditions were to impact financial institutions.

We held cash deposits at SVB in excess of those insurance limits at the time of its failure totaling approximately $12.3 million which, based on the FDIC's determination with respect to SVB, was fully protected and guaranteed by the FDIC. However, we have a limited commercial relationship with SVB which is being terminated, and have held minimal exposure to deposit risk when viewed as part of Cohu's overall financial strategy and diversification of assets across financial institutions.

While SVB's collapse was partly driven by recent interest rate increases, which resulted in steep realized losses to cover the run on withdrawals, the potential for similar events occurring pose ongoing risk to Cohu. Such events could cause the loss of cash deposits, limit Cohu's access to debt facilities and restrict our ability to obtain needed liquidity from financial institutions, hampering our ability to make strategic acquisitions or investments.

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

Recent Sales of Unregistered Securities

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

Issuer Purchases of Equity Securities

On October 28, 2021, we announced that our Board of Directors authorized a $70 million share repurchase program. On October 25, 2022, our Board of Directors authorized an additional $70 million under the share repurchase program. This share repurchase program was effective as of November 2, 2021 and has no expiration date, and the timing of share repurchases and the number of shares of common stock to be repurchased will depend upon prevailing market conditions and other factors. Repurchases under this program will be made using our existing cash resources and may be commenced or suspended from time-to-time at our discretion without prior notice. Repurchases may be made in the open market, through 10b5-1 programs, or in privately negotiated transactions at prevailing market rates in accordance with federal securities laws. All such repurchased shares and related costs are held as treasury stock and accounted for at trade date using the cost method. The total number of shares of common stock we purchased during the three months ended April 1, 2023 was 99,682 shares of our common stock for $3.5 million to be held as treasury stock. As of April 1, 2023, $78.5 million of shares of our common stock remained available for us to repurchase under our share repurchase program.

Share repurchase activity during the first quarter of 2023 was as follows:

(In thousands except price per share amounts)	Total Number of Shares Purchased	Weighted Average Price Paid Per Share(1)	Total Purchase Cost(2)	Total Number of Shares Purchased as Part of Publicly Announced Programs(3)	Maximum $ Value of Shares That May Yet Be Purchased Under The Programs(3)
Jan 1 - Jan 28, 2023	76	$ 34.62	$ 2,620	76	$ 79,336
Jan 29 - Feb 25, 2023	5	$ 35.94	$ 180	5	$ 79,156
Feb 26 - Apr 1, 2023	19	$ 35.77	$ 681	19	$ 78,475
	100	$ 34.90	$ 3,481	100	

(1) The weighted average price paid per share of common stock does not include the cost of commissions.
(2) The total purchase cost includes the cost of commissions.
(3) On October 28, 2021, we announced that our Board of Directors authorized a $70 million share repurchase program. On October 25, 2022, our Board of Directors authorized an additional $70 million under the share repurchase program. This share repurchase program is effective as of November 2, 2021 and has no expiration date, and the timing of share repurchases and the number of shares of common stock to be repurchased will depend upon prevailing market conditions and other factors. Repurchases under this program will be made using our existing cash resources and may be commenced or suspended from time-to-time at our discretion without prior notice. Repurchases may be made in the open market, through 10b5-1 programs, or in privately negotiated transactions at prevailing market rates in accordance with federal securities laws. All such repurchased shares and related costs are held as treasury stock and accounted for at trade date using the cost method.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None.

Table of Contents

Item 6. Exhibits.

10.1	Form of executive employee restricted stock unit agreement for use with restricted stock units granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan*
31.1	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Management contract or compensatory plan or arrangement

SIGNATURES

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

COHU, INC.
(Registrant)

Date: May 5, 2023

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

Date: May 5, 2023

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

Notice of Grant of Award and Award Agreement	**COHU, INC**. ID: 95-1934119 12367 CROSTHWAITE CIRCLE POWAY, CA 92064

Name	**Award Number:**	
Address	**Plan:**	**2005**
City, State, Zip	**ID:**	

Effective *(Grant Date)*, you have been granted an award of *(Number of Units)* restricted stock units. These units are restricted and unearned until the vest date(s) shown below, subject to your continued services with the Company through such vest dates, at which time you will receive shares of COHU, INC. (the Company) common stock.

The current total value of the award is $______.

The total price of the award is $______.

The award will vest and be settled in increments on the vesting date(s) shown below, which are also the “Settlement Dates.”

Shares	Vesting Dates

By your signature and the Company's signature below, you and the Company agree that this award is granted under and governed by the terms and conditions of the Company's 2005 Equity Incentive Plan as amended and the Restricted Stock Unit Award Agreement, all of which are attached and made a part of this document.

COHU, INC.	Date
Employee name	Date

COHU, INC.

RESTRICTED STOCK UNIT AGREEMENT
(Executive Employees)

Cohu, Inc. has granted to the individual (the "***Participant***") named in the *Notice of Grant of Restricted Stock Units* (the "***Notice***") to which this Restricted Stock Unit Agreement (the "***Agreement***") is attached, an award (the "***Award***") of Restricted Stock Units upon the terms and conditions set forth in the Notice and this Agreement. The Award has been granted pursuant to and shall in all respects be subject to the terms and conditions of the Cohu, Inc. 2005 Equity Incentive Plan (the "***Plan***"), as amended to the Date of Grant. By signing the Notice, the Participant: (a) represents that the Participant has read and is familiar with the terms and conditions of the Notice, the Plan and this Agreement, (b) accepts the Award subject to all of the terms and conditions of the Notice, the Plan and this Agreement, (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Board, upon any questions arising under the Notice, the Plan or this Agreement, and (d) acknowledges receipt of a copy of the Notice, the Plan and this Agreement.

1 DEFINITIONS AND CONSTRUCTION.

1.1 **Definitions**. Unless otherwise defined herein, capitalized terms shall have the meanings assigned to such terms in the Notice or the Plan.

1.2 **Construction**. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

2 ADMINISTRATION.

All questions of interpretation concerning this Agreement shall be determined by the Board. All determinations by the Board shall be final and binding upon all persons having an interest in the Award. Any officer of a Participating Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the officer has apparent authority with respect to such matter, right, obligation, or election.

3 VESTING AND SETTLEMENT OF THE AWARD.

3.1 **No Additional Payment Required**. The Participant shall not be required to make any additional monetary payment (other than applicable tax withholding, if any) upon settlement of the Award. Payment of the aggregate purchase price of the shares of Stock for which the Award is being settled shall be made in the form of past services rendered by the Participant to a Participating Company or for its benefit which the Board, by resolution, determines to have a value not less than the aggregate purchase price of such shares of Stock.

3.2 **Vesting of Award; Issuance of Shares of Stock**.

(a) Vesting. The Award will vest in accordance with the schedule set forth in the Notice, subject to the Participant's Service with the Company through the applicable vesting date. The Award is eligible to vest pursuant to the terms of the Company's Executive Retirement Policy, as attached hereto as Exhibit A, the terms of which, to the extent applicable to the Award, override and supersede anything to the contrary that may be set forth in this Agreement or in the Notice.

(b) Issuance. Subject to the provisions of Section 3.6 below, except as otherwise specified in the Executive Retirement Policy, the Company shall issue to the Participant, on a date (the "***Settlement Date***") within thirty (30) days following the earlier of (a) the Settlement Date (as defined in the Notice) or (b) the date of termination of the Participant's Service, a number of whole shares of Stock equal to the then vested number of Restricted Stock Units (as determined in accordance with the vesting terms set forth in the Notice), rounded down to the nearest whole number. Such shares of Stock shall not be subject to any restriction on transfer other than any such restriction as may be required pursuant to Section 3.6.

3.3 **Tax Withholding**. At the time the Award is granted, or at any time thereafter as requested by the Company, the Participant hereby authorizes withholding from payroll and any other amounts payable to the Participant, and otherwise agrees to make adequate provision for, any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company, if any, which arise in connection with the Award or the issuance of shares of Stock in settlement thereof. The Company shall have no obligation to deliver shares of Stock until the tax withholding obligations of the Company have been satisfied by the Participant. The Company shall have the right, but not the obligation, to require the Participant to satisfy all or any portion of the Company's tax withholding obligations by deducting from the shares otherwise deliverable to the Participant in settlement of the Award a number of whole shares having a Fair Market Value, as determined by the Company as of the date on which the tax withholding obligations arise, not in excess of the amount of such tax withholding obligations, with any remainder tax withholding amount less than the value of one share deducted from other cash compensation otherwise payable by the Company to the Participant, or alternatively via a cash payment from the Participant.

3.4 **Certificate Registration**. The certificate for the shares as to which the Award is settled shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

3.5 **Restrictions on Grant of the Award and Issuance of Shares**. The grant of the Award and issuance of shares of Stock upon settlement of the Award shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. No shares of Stock may be issued hereunder if the issuance of such shares would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares subject to the Award shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the settlement of the Award, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

3.6 **Fractional Shares**. The Company shall not be required to issue fractional shares upon the settlement of the Award.

3.7 **No Dividend Equivalents**. The Participant will not be entitled to receive dividends or distributions paid on the shares of Stock underlying Restricted Stock Units unless and until shares are issued according to Section 3.2.

4 <u>NONTRANSFERABILITY OF THE AWARD</u>.

Prior to the Settlement Date, neither this Award nor any Restricted Stock Unit subject to this Award shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except by will or by the laws of descent and distribution.

5 **EFFECT OF TERMINATION OF SERVICE**.

If the Participant's Service (as defined below) is terminated by the Participant or by the Company for any reason, including Participant's death or disability before all Restricted Stock Units have vested, the unvested Restricted Stock Units shall be forfeited by the Participant. As of the 31st (or 91st if reemployment is guaranteed by statute or contract) day of a leave of absence, vesting of the Restricted Stock Units will be suspended and vesting credit will no longer accrue, unless otherwise determined by the Committee or required by contract or statute. If the Participant returns to Service immediately after the end of an approved leave of absence, vesting credit shall continue to accrue from that date of continued Service. For purposes of this Agreement, "Service" shall mean the performance of services for the Company in the capacity of an Employee, Officer, Consultant, or Director.

6 **CHANGE IN CONTROL**.

In the event of a Change in Control (as defined below), the Award shall be settled in accordance with Section 3 immediately prior to the effective date of the Change in Control. For the purposes of this Award, the term "***Change in Control***" shall be defined as the occurrence of any of the following events: (a) any transaction in which any "person" as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, any trustee or other fiduciary holding securities under any employee benefit plan of the Company), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities entitled to vote in a general election for directors, other than a transaction involving the acquisition of securities directly from the Company; (b) a sale of all or substantially all of the Company's assets other than to a company or an entity fifty percent (50%) or more of which is owned by one or more of the current stockholders of the Company; or (c) a merger or consolidation of the Company with any other company, other than a merger or consolidation in which fifty percent (50%) or more of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation is owned by the current stockholders of the Company. Notwithstanding this Section 6, to the extent that the Award constitutes a "deferral of compensation" (as defined in and subject to Section 409A of the Code) and provides for a payment or a change in the time or form of payment upon a Change in Control, then no Change in Control shall be deemed to have occurred upon an event described above unless such event shall constitute a "change in control event" under Section 409A.

7 **ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE**.

Subject to any required action by the stockholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate and proportionate adjustments shall be made in the number and class of shares subject to the Award, in order to prevent dilution or enlargement of the Participant's rights under the Award. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." Any fractional share resulting from an adjustment pursuant to this Section 7 shall be rounded down to the nearest whole number. Such adjustments shall be determined by the Board, and its determination shall be final, binding and conclusive.

8 **RIGHTS AS A STOCKHOLDER, DIRECTOR, EMPLOYEE OR CONSULTANT**.

The Participant shall have no rights as a stockholder with respect to any shares which may be issued in settlement of this Award until the date of the issuance of a certificate for such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). Except as provided in Section 3.8, no adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 7. If the Participant is an Employee, the Participant understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Participant, the Participant's employment is "at will" and is for no specified term. Nothing in this Agreement shall confer upon the Participant any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the Participant's Service as a Director, an Employee or a Consultant, as the case may be, at any time.

9 **<u>LEGENDS</u>**.

The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates representing shares of stock issued pursuant to this Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to this Award in the possession of the Participant in order to carry out the provisions of this Section.

10 **<u>SECTION 409A COMPLIANCE</u>**.

This Agreement is intended to be exempt from or comply with Section 409A of the Code ("***Section 409A***") and shall be interpreted and administered accordingly. The Company reserves the unilateral right to amend this Agreement in order to maintain an exemption from or comply with Section 409A. Notwithstanding the foregoing, none of the Company, its contractors, agents and employees, the Board and each member of the Board shall have any obligation to prevent, minimize, or pay any gross-up payment to offset any negative tax consequences of any failure to follow the requirements of Section 409A or be liable for these consequences. Any payment under the Award that is subject to Section 409A and is otherwise due to a "specified employee" within the six-month period after "separation from service," as each specified term is defined under Section 409A, shall accumulate without interest and be paid on the first payroll date after the end of the six-month period or, if earlier, within ten business days after the appointment of a personal representative or executor of the estate after the Participant's death.

11 **<u>MISCELLANEOUS PROVISIONS</u>**.

11.1 **Further Instruments**. The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

11.2 **Binding Effect**. Subject to the restrictions on transfer set forth herein, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.

11.3 **Termination or Amendment**. The Board may terminate or amend the Plan or the Award at any time; provided, however, that except as provided in Section 6 in connection with a Change in Control, no such termination or amendment may adversely affect the Award without the consent of the Participant unless such termination or amendment is necessary to comply with any applicable law or government regulation. No amendment or addition to this Agreement shall be effective unless in writing.

11.4 **Notices**. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, upon deposit in the United States Post Office, by registered or certified mail, or with an overnight courier service with postage and fees prepaid, addressed to the other party at the address shown below that party's signature or at such other address as such party may designate in writing from time to time to the other party.

11.5 **Integrated Agreement**. The Notice and this Agreement constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein or therein and supersede any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter other than those as set forth or provided for herein or therein. To the extent contemplated herein or therein, the provisions of the Notice and the Agreement shall survive any settlement of the Award and shall remain in full force and effect.

11.6 **Applicable Law**. This Agreement shall be governed by the laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within the State of California.

11.7 **Counterparts**. The Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

11.8 **Electronic Delivery**. The Company may, in its sole discretion, decide to (a) deliver by electronic means any documents related to the Award granted under the Plan, participation in the Plan, future Awards that may be granted under the Plan, or reports the Company generally makes available to its shareholders or (b) request the Participant's consent to participate in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and, if requested, agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company. By signing the Notice, the Participant acknowledges that the Company is not requiring the Participant to consent to electronic delivery of documents or participation. The Participant may revoke consent to electronic delivery of documents or participation by promptly notifying the Company according to Section 11.4. In addition, if the Participant requests by telephone or in writing, the Company shall have delivered to the Participant for free a paper copy of any document electronically delivered.

Exhibit A to RESTRICTED STOCK UNIT AGREEMENT (Executive Employees)

Cohu, Inc.
Executive Retirement Benefits Policy
(As Adopted Effective March 14, 2023)

In order to reward executive employees of Cohu, Inc. (the "Company") with substantial tenure and incentivize them to facilitate an orderly transition of their roles and responsibilities to qualified successors following their determination to retire from full-time employment with the Company (each, a "Retiring Employee"), the Company has determined to provide those Retiring Employees who satisfy all the requirements set forth herein (each, a "Qualifying Retiring Employee") with the benefits set forth in this Executive Retirement Benefits Policy (the "Retirement Policy"). Certain capitalized terms used in this Retirement Policy have the meanings set forth in Section IV below.

I. Qualifications for Retirement Policy Eligibility and Conditions to Benefits. To be eligible for benefits under this Retirement Policy the Retiring Employee must satisfy each of the following qualifications:

(a) Request for Retirement Benefit. The Retiring Employee must provide advance written notice to the Company of such Retiring Employee's request to receive retirement benefits based on the Retirement Employee's intention to fully and permanently retire from full-time employment with the Company in such form as is approved by the Company (the "Retirement Benefit Request") and which meets the additional requirements set forth in this Section 1.

(b) Eligible Positions. At the date a Retiring Employee provides the Retirement Benefit Request, such Retiring Employee must be serving in an active, full-time capacity as the Company's Chief Executive Officer ("CEO") or in a Vice President or above position that directly reports to the CEO.

(c) Age and Years of Service Requirement. Upon the date that the Retiring Employee provides the Retirement Benefit Request: (i) the Retiring Employee must be at least sixty-two (62) years of age, and (ii) the Retiring Employee must have completed at least ten (10) Years of Service with the Company in the position of Vice President or above. Additionally, the Retiring Employee's must be at least sixty-three (63) years of age as of the scheduled Retirement Date set forth in the Retirement Benefit Request.

(d) Specified Transition Period. The Retiring Employee (i) in the Retirement Benefit Request, must commit to continue in the Retiring Employee's current position and work to facilitate an orderly transition of such Retiring Employee's role to a qualified successor for the duration of the applicable Transition Period for such Retiring Employee following the date of the Retirement Benefit Request, and (ii) must continue employment in the Retiring Employee's position in the ordinary course (and in accordance with the terms of such Retiring Employee's employment agreement (if any)) and facilitate such orderly transition for a period equal to: (i) the duration of such Transition Period, or (ii) such lesser period of time as may later be determined by the Chief Executive Officer (or if the Retiring Employee is the Chief Executive Officer, such lesser period approved by the Board) (such period, as so determined, the "Succession Period," and with the applicable date of retirement of the Retiring Employee as of a specified date following completion of the Succession Period, the "Retirement Date"). During the Succession Period, the Company will search for a qualified successor and, if a successor is identified during the Succession Period, the Retiring Employee will work to facilitate the orderly transition of such Retiring Employee's role to the successor as directed by the CEO or board, as appropriate. During the Succession Period, the Retiring Employee will not be eligible to receive any new equity awards from the Company.

II. Conditions to Benefits.

(a) Continuing Obligations. All benefits to be provided hereunder to a Qualifying Retiring Employee following the Retirement Date are subject to, and conditioned upon, such Qualifying Retiring Employee's continued compliance with all agreements between the Company and such Qualifying Retiring Employee, including any confidentiality, non-solicitation or other similar agreements.

(b) Release Requirement. As a condition to eligibility to receive benefits under this Retirement Policy, no later than sixty-two (62) days following the Retirement Date, the Qualifying Retiring Employee must deliver to the Company a general release of claims in a form provided by the Company that is effective and irrevocable with respect to all potential claims the Qualifying Retiring Employee may have against the Company or its affiliates related to the Qualifying Retiring Employee's employment (the "Release"). The Company shall be responsible for providing a proposed form of Release to the Retiring Employee within ten (10) calendar days of the Retirement Date. If the Company timely provides a proposed form of Release and the Qualifying Retiring Executive does not timely execute and return it, or revokes such Release after delivery, the Company shall not be required to provide the Qualifying Retiring Employee any benefits under this Retirement Policy.

III. Retirement Benefits. The Company will provide the following retirement benefits to Qualifying Retiring Employees who meet all the eligibility conditions set forth in this Retirement Policy.

(a) Eligible RSUs. The Retiring Employee's Eligible RSUs will accelerate vesting. Shares will be issued in settlement of such vested Eligible RSUs on the originally scheduled vesting and settlement dates for such Eligible RSUs (on the same schedule as if the Qualifying Retiring Employee had continued in Service with the Company through the original scheduled vesting dates). With respect to any Eligible RSUs which are settled via a share issuance in the same calendar year which includes the Retirement Date or during which calendar year the Qualifying Retiring Employee continued to provide Services, shares will be withheld by the Company in satisfaction of any related tax withholding obligation. With respect to any Eligible RSUs which are settled via a share issuance in any calendar year which follows the Retirement Date and during which calendar year the Qualifying Retiring Employee did not provide Services, the Qualifying Retiring Employee must arrange to provide for timely separate payment to the Company of the applicable tax withholding amount as a condition to issuance of the shares.

(b) Eligible PSUs.

(i) No Continued Services After Retirement Date. If the Qualifying Retiring Employee will not continue to provide Services following the Retirement Date without interruption, then the Eligible PSUs will remain eligible to vest in accordance with their terms at the applicable attained performance level with respect to a pro-rata portion of such Eligible PSUs, with such pro-rata portion calculated by reference to the total number of days the Qualifying Retiring Employee was employed by the Company during the applicable performance period divided by the total number of days in such performance period. Shares will be issued in settlement of such vested Eligible PSUs on the originally scheduled vesting and settlement date for such Eligible RSUs (on the same schedule as if the Qualifying Retiring Employee had continued in Service with the Company through the original scheduled vesting and settlement date). With respect to any Eligible PSUs which are settled via a share issuance in any calendar year which follows the Retirement Date and during which calendar year the Qualifying Retiring Employee did not provide Services, the Qualifying Retiring Employee must arrange to provide for timely separate payment to the Company of the applicable tax withholding amount as a condition to issuance of the shares.

(ii) Continued Services After Retirement Date. If the Qualifying Retiring Employee will provide Services following the Retirement Date without interruption, then notwithstanding anything to the contrary set forth in the applicable grant notice or award agreement for the Eligible PSUs, the Eligible PSUs will remain eligible to vest and be settled in accordance with their terms at the applicable attained performance level, subject to the Qualifying Retiring Employee's continued provision of the Services through the scheduled vesting date of the Eligible PSUs. If the Qualified Retiring Employee thereafter ceases to continue to provide Services prior to the vesting date of such Eligible RSUs, then the Eligible PSUs will remain eligible to vest in accordance with their terms at the applicable attained performance level with respect to a pro-rata portion of such Eligible PSUs, with such pro-rata portion calculated by reference to the total number of days the Qualifying Retiring Employee was employed by the Company or providing Services during the applicable performance period divided by the total number of days in such performance period. Shares will be issued in settlement of such vested Eligible PSUs on the originally scheduled vesting and settlement date for such Eligible RSUs (on the same schedule as if the Qualifying Retiring Employee had continued in Service with the Company through the original scheduled vesting and settlement date). With respect to any Eligible PSUs which are settled via a share issuance in any calendar year which follows the Retirement Date and during which calendar year the Qualifying Retiring Employee did not provide Services, the Qualifying Retiring Employee must arrange to provide for timely separate payment to the Company of the applicable tax withholding amount as a condition to issuance of the shares.

IV. Definitions. The following capitalized terms used in this Retirement Policy have the meanings set forth below.

(a) "Committee" means the Compensation Committee of the Company's board of directors.

(b) "Effective Date" means March 14, 2023.

(c) "Eligible RSUs" means those Company restricted stock unit awards held by the Retiring Employee which are: (i) granted on or after the Effective Date, (ii) granted at least six (6) months prior to the date of the Retirement Benefit Request, and (iii) eligible to vest solely conditioned on the continued services of the Retiring Employee through the applicable vesting dates.

(d) "Eligible PSUs" means those Company restricted stock unit awards held by the Retiring Employee which are: (i) granted on or after the Effective Date, (ii) granted at least six (6) months prior to the date of the Retirement Benefit Request, and (iii) eligible to vest contingent upon the achievement of performance goals and the continued employment of the Retiring Employee.

(e) "Retirement Date" has the meaning set forth in Section 1(d).

(f) "Services" means continued services provided to the Company by the Retiring Employee following the Retirement Date as a member of the Company's board of directors or as an advisor, consultant or in another non-employee capacity, or as a part-time employee.

(g) "Transition Period" means a period of nine (9) months if the Retiring Employee is the Chief Executive Officer or Chief Financial Officer and "Transition Period" means a period of six (6) months for Retiring Employees who are not the Chief Executive Officer or Chief Financial officer.

(h) "Years of Service" means shall mean each complete year of employment in which the Retiring Employee has been employed by the Company. For purposes of this definition, a year of employment shall be a 365-day period (or 366-day period in case of a leap year) that, for the first year of employment, commences on the Employee's date of hiring and that, for any subsequent year, commences on an anniversary of that hiring date.

V. ***Administration***. The Retirement Policy has been approved and adopted by the Committee as of the date set forth below and will be administered by the Committee. All decisions or interpretations made by the Committee regarding the Retirement Policy, or otherwise pursuant to the provisions of the Retirement Policy, including any decision to amend, alter, or revoke the Retirement Policy, shall be final, conclusive and binding on all persons, including the Company and any Retiring Employee. No member of the Committee, nor any officer or employee of the Company or any subsidiary thereof acting on behalf of the Committee, shall be personally liable for any action, omission, determination or interpretation taken or made in good faith with respect to the Retirement Policy, and all members of the Committee and each and any officer or employee of the Company and of any subsidiary thereof acting on their behalf shall, to the maximum extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, omission, determination or interpretation.

VI. ***Effectiveness.*** The terms of this Retirement Policy are automatically incorporated into, and deemed part of the terms of, any Eligible RSUs or Eligible PSUs that are granted on or after the Effective Date.

Exhibit 31.1

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: May 5, 2023

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

Exhibit 31.2

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: May 5, 2023

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

Exhibit 32.1

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 April 1, 2023 (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: May 5, 2023

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

Exhibit 32.2

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 April 1, 2023 (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: May 5, 2023

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