

COHU INC
Form 10-K
March 02, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 30, 2017

OR

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

Commission file number 1-4298

COHU, INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
Incorporation or Organization)*

95-1934119

(I.R.S. Employer Identification No.)

12367 Crosthwaite Circle, Poway, California 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:

<u>Title of Each Class</u>	<u>Name of Exchange on Which Registered</u>
Common Stock, \$1.00 par value	The NASDAQ Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant was approximately \$283,000,000 based on the closing stock price as reported by the NASDAQ Stock Market LLC as of June 23, 2017. Shares of common stock held by each officer and director and by each person or group who owns 5% or more of the outstanding common stock have been excluded in that such persons or groups may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 16, 2018, the Registrant had 28,539,627 shares of its \$1.00 par value common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Cohu, Inc.'s 2018 Annual Meeting of Stockholders to be held on May 16, 2018, and to be filed pursuant to Regulation 14A within 120 days after registrant's fiscal year ended December 30, 2017, are incorporated by reference into Part III of this Report.

COHU, INC.

FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 30, 2017

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The following discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto included elsewhere in this Annual Report on Form 10-K. This Annual Report on Form 10-K 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 (the “Exchange Act”), and is subject to the Safe Harbor provisions created by that statute. These forward-looking statements are based on management’s current expectations and beliefs, including estimates and projections about our business. Statements concerning financial position, business strategy, and plans or objectives for future operations are forward-looking statements. These 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 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 update publicly 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 Securities and Exchange Commission (“SEC”) after the date of this Annual Report.

PART I

Item 1. Business.

Cohu, Inc. (“Cohu”, “we”, “our” and “us”) was incorporated under the laws of California in 1947, as Kalbfell Lab, Inc. and commenced active operations in the same year. Our name was changed to Kay Lab in 1954. In 1957, Cohu was reincorporated under the laws of the State of Delaware as Cohu Electronics, Inc. and in 1972 our name was changed to Cohu, Inc.

On January 4, 2017, we acquired Kita Manufacturing Co. LTD. (“Kita”), a Japan-based manufacturer of spring probe contacts used in final test contactors, probe cards, Printed Circuit Board (PCB) test and connectors sold to customers worldwide. The results of Kita’s operations have been included in our consolidated financial statements since that date. In 2015, we sold our mobile microwave communications equipment business, Broadcast Microwave Services, Inc. (“BMS”). Our decision to sell BMS resulted from the determination that this business was no longer a strategic fit within our organization. The operating results of BMS are being presented as discontinued operations. Unless otherwise noted, all amounts presented are from continuing operations.

Subsequent to the sale of BMS, we have one reportable segment, semiconductor equipment. Financial information on our reportable segment for each of the last three years is included in Note 7, “Segment and Geographic Information” in Part IV, Item 15(a) of this Form 10-K.

Cohu is a leading supplier of semiconductor test and inspection handlers, micro-electro mechanical system (MEMS) test modules, test contactors and thermal sub-systems used by global semiconductor manufacturers and test subcontractors. We develop, manufacture, sell and service a broad line of equipment capable of handling a wide range of integrated circuits and light-emitting diodes (LEDs). Handlers are electromechanical systems used to automate testing and inspection of integrated circuits and LEDs in the back-end of the semiconductor manufacturing process to determine the quality and performance of the semiconductor devices, such as microprocessors, logic, analog, memory or mixed signal devices. The majority of handlers use either pick-and-place, gravity-feed, turret or test-in-strip technologies. The type of device, test parallelism, thermal requirements and signal interface requirements normally determines the appropriate handling approach.

MEMS test modules are independent physical stimuli units for testing sensor integrated circuits typically used in the automotive and consumer electronics industries. These MEMS test modules can be integrated to our gravity-feed, pick-and-place, turret or test-in-strip handlers for testing a variety of sensors, including pressure, acoustic, magnetic field hall effect, optical and others.

To ensure quality, semiconductors are typically tested at hot and/or cold temperatures, which can simulate the final operating environment. Our test handler products are designed to provide a precisely controlled test environment, often over the range of -60 degrees Celsius to +175 degrees Celsius. As the speed and power of certain integrated circuits, such as microprocessors and mobile processors, have increased so has the need to actively manage the self-generated heat during the test process to maximize yield. This heat is capable of damaging or destroying the integrated circuit and can result in speed downgrading, when devices self-heat and fail to successfully test at their maximum possible speed. Device yields are extremely important and speed grading directly affects the selling price of the integrated circuit and the profitability of the semiconductor manufacturer. In addition to temperature capability, other key factors in the design of test handlers are handling speed, flexibility, parallel test capability, alignment to the test contactors, system size, reliability and cost.

Thermal sub-systems are used in advanced burn-in and system-level test applications to maintain and control the temperature of integrated circuits during the testing process. Burn-in stresses devices for detection of early failures (infant mortality) prior to distribution. The burn-in process is also used by semiconductor manufacturers to develop reliability models of newly introduced devices. The objective of reliability testing is to determine a device's fault-free operation and estimated useful life by exposing the device to various electrical and thermal conditions that impact its performance. System-level testing is required for functional testing of high-end microprocessors as well as mobile processors combined with memory. This is typically the last test operation of complex, expensive integrated circuits prior to the final electronic integration process.

Our products are used in high-volume production environments and many are in service twenty-four hours per day, seven days a week. Customers continuously strive to increase the utilization of their production test equipment and expect high reliability from test handlers, MEMS test modules and thermal subsystems used in burn-in and system-level test. The availability of trained technical support personnel is an important competitive factor in the marketplace. Accordingly, we deploy service engineers worldwide, often within customers' production facilities, who work with customer personnel to maintain, repair and continuously improve the performance of our equipment.

Our Products

We offer products for the pick-and-place, gravity-feed, test-in-strip and turret handling, MEMS, burn-in and system-level test markets. We currently sell the following products:

The **Delta MATRiX** is a high-performance pick-and-place handler capable of thermally conditioning devices from -60 degrees Celsius to +175 degrees Celsius. This system is mainly used for testing of semiconductors used in automotive and industrial markets.

The **Delta Pyramid** is a high performance thermal handler for microprocessors, graphics processors and other high power integrated circuits. The Pyramid incorporates our proprietary **T-Core** thermal control technology that optimizes test yield of power dissipative integrated circuits.

Delta Eclipse is a pick-and-place handler tailored for testing advanced computing and mobile processors that require Cohu's **T-Core** active thermal control technology. This product can also be configured without active thermal control for testing of standard analog and digital semiconductors

Delta LinX is our platform serving assembly automation. Back-end semiconductor assembly is the major process step prior to device testing and validation. The LinX product line offers advanced JEDEC handling automation that efficiently links various assembly test processes.

The **Rasco SO1000** is a high throughput gravity-feed platform that provides an economical solution for testing up to 4 devices in parallel. This handler can be configured for tube-to-tube or metal magazine input and output, ambient-hot or tri-temperature testing and is easily kit-able for a wide range of integrated circuit packages.

The **Rasco SO1000** and **SO2000** are high throughput gravity-feed platforms that provide economical solutions for testing up to 8 devices in parallel. These handlers can be configured for tube-to-tube or metal magazine input and output, bowl feeding, tape-and-reel. Additionally, these handlers can be configured for ambient-hot or tri-temperature testing.

Rasco Saturn and **Jupiter** are gravity handlers that deliver fast index time capability with up to 8 devices tested in parallel at cold and/or hot temperature. Saturn has a configuration that covers testing of very small to medium size packaged integrated circuits, and Jupiter is a version that enables testing of medium to very large packaged integrated circuits typically serving the power management device market.

The **Rasco Jaguar** test-in-strip handler can process an entire strip at once or index the strip for single/multiple device testing. The system has tri-temperature capability, accommodates either stacked or slotted input/output media and is configured with automated vision alignment. The Jaguar is also a solution for in-process testing of next generation multi-stacked packages.

The **Ismecca NY32** is a scalable, 32-position turret handler used for testing and inspection of integrated circuits, LEDs, and discrete devices. There are many configurations of the NY32 turret handler: handling wafers in film-frame for input and/or output that is common for LEDs and wafer level package (WLP) devices; tray and tube input and/or output used for integrated circuits and discrete devices; and bowl feeding, tape and de-taping, alignment, laser marking, inspection and test modules. The NY32 is capable of testing devices at ambient and hot temperature.

The **Ismecca NY20** is a turret handler platform that delivers high throughput combined with fast device change-over time for both high-volume and high-mix testing and inspection of integrated circuits, LEDs and discrete devices. The 20-position turret offers many of the functional modules and capabilities available on the NY32 platform in a smaller footprint, higher throughput handler.

MEMS test modules generate physical stimuli for testing of sensor integrated circuits. These are typically used in the automotive (e.g. tire pressure, airbag sensors) and consumer electronics (e.g. tilt, motion, microphone and light sensors) industries. The MEMS modules are stand-alone units that can be integrated into our pick-and-place, turret, test-in-strip, or gravity-feed handlers.

Thermal Sub-Systems are used by integrated circuit manufacturers in high performance burn-in and system level test. The **Delta T-Core** thermal sub-systems provide fast and accurate temperature control of the integrated circuit during the testing process using the same technology available in the Pyramid handler.

Delta Fusion HD is a tri-temperature thermal sub-system that utilizes T-Core technology for testing mobile processors.

PANTHER is a prober that optimizes test and vision inspection of wafer level package (WLP) and bumped dies, delivering a substantial improvement in semiconductor manufacturing quality that is required for today's high-end consumer products.

Solstice is a system-level test automation platform for complex, integrated semiconductors that typically combine a processor and memory. This product enables greater semiconductor manufacturing quality by testing devices under the actual end-usage conditions.

We design, manufacture, sell and support various lines of **Test Contactor** solutions. These are consumable, electro-mechanical assemblies that connect the device under test, inside our test handlers, and the automated test equipment. Cohu contactors are used in testing digital semiconductor devices utilizing spring probe technology, such as the ones produced by Kita, also power management and LED semiconductor devices utilizing cantilever technology, and RF semiconductor devices based on high performance contacts designed to operate at frequencies up to 34 GHz.

We provide consumable, non-consumable and spare items that are used to maintain, sustain or otherwise enable customer's equipment to meet its performance, availability and production requirements.

We design and manufacture a wide range of device dedication kits that enable handlers to process different semiconductor packages. Our Philippines operation designs and manufactures the majority of our handler kits and provides applications support to customers in the southeast Asia region.

Sales by Product Line

During the last three years, our consolidated sales were distributed as follows:

	2017	2016	2015
Semiconductor test systems	56%	57%	54%
Spares, contactors, tooling (kits) and service	44%	43%	46%

Customers

Our customers include semiconductor integrated device manufacturers and test subcontractors. Repeat sales to existing customers represent a significant portion of our sales. During the last three years, the following customers comprised 10% or greater of our consolidated net sales:

	2017	2016	2015
Intel	11.2%	17.2%	18.0%
NXP Semiconductors N.V. ⁽¹⁾	15.9%	13.7%	11.4%

⁽¹⁾ *The merger of NXP Semiconductors N.V. and Freescale Semiconductor, Ltd. was completed on December 7, 2015. Sales to these customers have been combined for all periods presented.*

The loss of, or a significant reduction in, orders by these or other significant customers, including reductions due to market, economic or competitive conditions or the outsourcing of final integrated circuit test to subcontractors that are not our customers would adversely affect our financial condition and results of operations and as a result, we believe that our customer concentration is a significant business risk.

Additional financial information on revenues from external customers by geographic area for each of the last three years is included in Note 7, “Segment and Geographic Information” in Part IV, Item 15(a) of this Form 10-K.

Sales and Marketing

We market our products worldwide through a combination of a direct sales force and independent sales representatives. In geographic areas where we believe there is sufficient sales potential, we generally employ our own personnel. Our U.S. sales office is located in Poway, California. The Europe sales offices are located in Kolbermoor, Germany and La Chaux-de-Fonds, Switzerland. We operate in Asia with offices in Singapore, Malaysia, Thailand, Philippines, Taiwan, China, Korea, and Japan.

Competition

The semiconductor equipment industry is intensely competitive and is characterized by rapid technological change and demanding worldwide service requirements. Significant competitive factors include product performance, price, reliability, lead-time, customer support and installed base of products. While we are a leading worldwide supplier of semiconductor test handling equipment, we face substantial competition. The Japanese and Korean markets for test handling equipment are large and represent a significant percentage of the worldwide market. During each of the last three years our sales to Japanese and Korean customers, who have historically purchased test handling equipment from Asian suppliers, have represented less than 10% of our total sales. Some of our current and potential competitors are part of larger corporations that have substantially greater financial, engineering, manufacturing and customer support capabilities and offer more extensive product offerings than Cohu. To remain competitive we believe we will require significant financial resources to offer a broad range of products, maintain customer support and service centers worldwide and to invest in research and development of new products. Failure to introduce new products in a timely manner or the introduction by competitors of products with actual or perceived advantages could result in a loss of competitive position and reduced sales of existing products. No assurance can be given that we will continue to compete successfully throughout the world.

Backlog

Our backlog of unfilled orders for products, was \$107.6 million at December 30, 2017, and \$65.1 million at December 31, 2016. Backlog at December 30, 2017, will be impacted by our adoption of Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), on December 31, 2017, the first day of our fiscal 2018. This new accounting guidance amends the existing accounting standards for revenue recognition. For additional information see recently issued accounting pronouncements in Note 1 “Accounting Policies” in Part IV, Item 15(a) of this Form 10-K.

Backlog is generally expected to be shipped within the next twelve months. Our backlog at any point in time may not be representative of actual sales in any future period due to the possibility of customer changes in delivery schedules, cancellation of orders, potential delays in product shipments, difficulties in obtaining parts from suppliers, failure to satisfy customer acceptance requirements resulting in the inability to recognize revenue under accounting requirements. Furthermore, many orders are subject to cancellation or rescheduling by the customer with limited or no penalty. A reduction in backlog during any period could have a material adverse effect on our business, financial condition and results of operations.

Manufacturing and Raw Materials

Our principal manufacturing operations are currently located in Malacca, Malaysia (handler operations and kits); Laguna, Philippines (kits and test contractors), Osaka, Japan (test contractors); Poway, California; and Kolbermoor, Germany.

Many of the components and subassemblies we utilize are standard products, although some items are made to our specifications. Certain components are obtained or are available from a limited number of suppliers. We seek to reduce our dependence on sole and limited source suppliers, however in some cases the complete or partial loss of certain of these sources could have a material adverse effect on our operations while we attempt to locate and qualify replacement suppliers.

Patents and Trademarks

Our technology is protected by various intellectual property laws including patent, license, trademark, copyright and trade secret laws. In addition, we believe that, due to the rapid pace of technological change in the semiconductor equipment industry, the successful manufacture and sale of our products also depends upon our experience, technological know-how, manufacturing and marketing skills and speed of response to sales opportunities. In the absence of patent protection, we would be vulnerable to competitors who attempt to copy or imitate our products or processes. We believe our intellectual property has value and we have in the past and will in the future take actions we deem appropriate to protect such property from misappropriation. However, there can be no assurance such actions will provide meaningful protection from competition. Protecting our intellectual property rights or defending against claims brought by other holders of such rights, either directly against us or against customers we have agreed to indemnify, would likely be expensive and time consuming and could have a material adverse effect on our operations.

Research and Development

Research and development activities are carried on in our various subsidiaries and are directed toward development of new products and equipment, as well as enhancements to existing products and equipment. Our total research and development expense was \$40.7 million in 2017, \$34.8 million in 2016 and \$33.1 million in 2015.

We work closely with our customers to make improvements to our existing products and in the development of new products. We expect to continue to invest heavily in research and development and must manage product transitions successfully as introductions of new products could adversely impact sales of existing products.

Environmental Laws

Our business is subject to numerous federal, state, local and international environmental laws. On occasion, we have been notified by local authorities of instances of noncompliance with local and/or state environmental laws. We believe we are in compliance with applicable federal, state, local and international regulations. Compliance with foreign, federal, state and local laws that have been enacted or adopted regulating the discharge of materials into the environment or otherwise relating to the protection of the environment and the prevention of climate change have not had a material effect and are not expected to have a material effect upon our capital expenditures, results of operations or our competitive position. However, future changes in regulations may require expenditures that could adversely impact earnings in future years.

Executive Officers of the Registrant

The following sets forth the names, ages, positions and offices held by all executive officers of Cohu as of February 16, 2018. Executive Officers serve at the discretion of the Board of Directors, until their successors are appointed.

Name	Age	Position
Luis A. Müller	48	President and Chief Executive Officer
Jeffrey D. Jones	56	Vice President, Finance and Chief Financial Officer
Thomas D. Kampfer	54	Vice President, Corporate Development, General Counsel and Secretary
Christopher G. Bohrson	58	Vice President and General Manager, Digital Test Handlers
Hock W. Chiang	60	Vice President, Global Sales & Service
Ian von Fellenberg	58	Vice President and General Manager, Analog Test Handlers

Dr. Müller joined Cohu's Delta Design subsidiary in 2005 and has been President and Chief Executive Officer of Cohu, Inc. since December 2014. Dr. Müller was previously President of Cohu's Semiconductor Equipment Group (SEG) from January 2011 until being named CEO of Cohu, Managing Director of SEG's Rasco GmbH business unit in Germany from January 2009 to December 2010, and Vice President of SEG's High Speed Pick-and-Place handler products from July 2008 to December 2010. Prior to joining Cohu, Inc. Dr. Müller spent nine years at Teradyne, where he held various management positions in engineering and business development.

Mr. Jones joined Cohu's Delta Design in July 2005 as Vice President Finance and Controller. In November 2007, Mr. Jones was named Vice President, Finance and Chief Financial Officer of Cohu. Prior to joining Delta Design, Mr. Jones, was a consultant and Vice President and General Manager of the Systems Group at SBS Technologies, Inc., a designer and manufacturer of embedded computer products. Prior to SBS Technologies, Mr. Jones was an Audit Manager for Coopers & Lybrand (now PricewaterhouseCoopers).

Mr. Kampfer joined Cohu in May 2017 as Vice President Corporate Development, General Counsel and Secretary. Mr. Kampfer most recently served from June 2015 to May 2017 as Executive Vice President and Chief Financial Officer of Multi-Fineline Electronix, Inc. Prior to that, Mr. Kampfer served from 2012 to 2015 as President of CohuHD, formerly a division of Cohu, which was divested in 2014. Previously, Mr. Kampfer spent eight years with Iomega Corporation, holding several executive positions, including President and Chief Operating Officer and Vice President, General Counsel and Secretary. Earlier, Mr. Kampfer served in various legal and business development executive roles with Proxima Corporation, and also held various positions in manufacturing engineering and legal at IBM.

Mr. Bohrson joined Cohu in May 2016 as Vice President Sales and Service, Americas. Since January 2017, he has served as Vice President and General Manager for Digital Test Handlers. Prior to joining Cohu, from 2007 through 2016 Mr. Bohrson held several executive positions at Bosch Automotive Service Solutions/SPX lastly as Vice President and General Manager of the OEM Diagnostics and Information Solutions group. Prior to this, Mr. Bohrson spent twenty years working in a variety of management and technical roles at Teradyne, Inc.'s ("Teradyne") semiconductor and broadband test division in the US and Asia.

Mr. Chiang joined Cohu in October 2012 as Vice President, Global Sales & Service for Cohu's Semiconductor Equipment Group. Prior to joining Cohu, Mr. Chiang served as a Director for AXElite Technology Corporation. From 1989 through 2011, Mr. Chiang held a variety of positions at Teradyne including Director – Asia SOC Marketing & New Business Development, Managing Director of Teradyne's Singapore and China operations and Director of Worldwide Field Total Quality Management.

Mr. von Fellenberg joined Cohu in 2013 with the acquisition of Ismeca Semiconductor by Cohu. He was Vice President and General Manager of the Ismeca Business Unit from 2013 until his appointment as Vice President and General Manager for Analog Test Handlers in January 2017. In 2004, he set up operations for Ismeca in China and managed both the North Asia and South Asia regions. Prior to Ismeca, Mr. Fellenberg spent six years at Orell Füssli Security Printing where he held several executive positions in the document security technology business. He has also held various positions in sales and product management for companies in the automation components (sensors, drives) industry.

Employees

At December 30, 2017 we had approximately 1,800 employees. Our employee headcount has fluctuated in the last five years primarily due to the volatile and unpredictable business conditions in the semiconductor equipment industry. Our headcount has also been impacted by the acquisition of Kita and the divestiture of BMS. Our employees in the United States and most locations in Asia are not covered by collective bargaining agreements, however, certain employees in Kolbermoor, Germany, are represented by a works council, employees in La Chaux-de-Fonds, Switzerland are members of the micro-technology and Swiss watch trade union and, certain employees in our China operation belong to local trade unions. We have not experienced any work stoppages and consider our relations with our employees to be good. We believe that a great part of our future success will depend on our continued ability to attract and retain qualified employees. Competition for the services of certain personnel, particularly those with technical skills, is intense. There can be no assurance that we will be able to attract, hire, assimilate and retain a sufficient number of qualified employees.

Available Information

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Our web site address is www.cohu.com. We make available free of charge, on or through our web site, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission. Our Code of Business Conduct and Ethics and other documents related to our corporate governance is also posted on our web site at www.cohu.com/investors/corporategovernance. Information contained on our web site is not deemed part of this report.

Item 1A. Risk Factors.

Set forth below and elsewhere in this report on Form 10-K and in other documents we file with the SEC, are risks and uncertainties that could cause actual results to differ materially from the results expressed or implied by the forward-looking statements contained in this Annual Report. Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below in addition to the other cautionary statements and risks described elsewhere, and the other information contained, in this Annual Report on Form 10-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on Cohu, our business, financial condition and results of operations could be seriously harmed. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment.

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

As part of our business strategy, we regularly evaluate investments in, or acquisitions of, complementary businesses, joint ventures, services and technologies, and we expect that periodically we will continue to make such investments and acquisitions in the future, such as our acquisition of Kita, which was completed on January 4, 2017. Acquisitions and investments involve numerous risks, including, but not limited to:

- difficulties and increased costs in connection with integration of the personnel, operations, technologies and products of acquired businesses;
- increasing the scope, geographic diversity and complexity of our business;
- the cost and risk of having to potentially develop new and unfamiliar sales channels for acquired businesses;
- diversion of management's attention from other operational matters;
- the potential loss of key employees, customers or suppliers of Cohu or acquired businesses;
- lack of synergy, or the inability to realize expected synergies, resulting from the acquisition;
- potential unknown liabilities associated with the acquired businesses;
- failure to commercialize purchased technology;
- the impairment of acquired intangible assets and goodwill that could result in significant charges to operating results in future periods; and
- challenges caused by distance, language and cultural differences

We may decide to finance future acquisitions and investments through a combination of borrowings, proceeds from equity or debt offerings and the use of cash, cash equivalents and short-term investments. If we finance acquisitions by issuing convertible debt or equity securities, our existing stockholders may be diluted which could affect the market price of our stock.

Mergers, acquisitions and investments are inherently risky and the inability to effectively manage these risks could materially and adversely affect our business, financial condition and results of operations. At December 30, 2017, we had goodwill and net purchased intangible assets balances of \$65.6 million and \$16.7 million, respectively.

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

Given the highly competitive and rapidly evolving technology environment in which we operate, we believe it is important to develop new product offerings to meet strategic opportunities as they evolve. This includes developing products that we believe are necessary to meet the future needs of the marketplace. We are currently investing in new product development programs to enable us to compete in the test contactor and wafer level package (WLP) probe and inspection markets, which includes a significant ongoing investment in our PANTHER platform. We expect to continue to make investments and we may at any time, based on product need or marketplace demand, decide to significantly increase our product development expenditures in these or other products. The cost of investments in new product offerings can have a negative impact on our operating results and there can be no assurance that any new products we develop will be accepted in the marketplace or generate material revenues for us.

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

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

costs and difficulties in staffing and managing international operations;
legislative or regulatory requirements and potential changes in or interpretations of requirements in the United States and in the countries in which we manufacture or sell our products;
trade restrictions, including treaty changes, sanctions and the suspension of export licenses;
compliance with and changes in import/export tariffs and regulations;
difficulties in enforcing contractual and intellectual property rights;
longer payment cycles;
local political and economic conditions;
potentially adverse tax consequences, including restrictions on repatriating earnings and the threat of “double taxation;” and
fluctuations in foreign currency exchange rates against the U.S. Dollar, which can affect demand for our products and increase our costs.

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

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

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

Our suppliers are subject to the fluctuations in general economic cycles, and global economic conditions may impact their ability to operate their business. They may also be impacted by increasing costs of raw materials, labor and

distribution, resulting in demands for less attractive contract terms or an inability for them to meet our requirements or conduct their own businesses. The performance and financial condition of a supplier may cause us to alter our business terms or to cease doing business with a particular supplier, or change our sourcing practices generally, which could in turn adversely affect our own business and financial condition.

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

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

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

Visibility into our markets is limited. The semiconductor equipment business is highly dependent on the overall strength of the semiconductor industry. Historically, the semiconductor industry has been seasonal with recurring periods of oversupply and excess capacity, which often have had a significant effect on the semiconductor industry’s demand for capital equipment, including equipment of the type we manufacture and market. We anticipate that the markets for newer generations of semiconductors and semiconductor equipment will also be subject to similar cycles and severe downturns. Any significant reductions in capital equipment investment by semiconductor integrated device manufacturers and test subcontractors will materially and adversely affect our business, financial position and results of operations. In addition, the seasonal, volatile and unpredictable nature of semiconductor equipment demand has in the past and may in the future expose us to significant excess and obsolete and lower of cost or net realizable value inventory write-offs and reserve requirements. In 2017, 2016 and 2015, we recorded pre-tax inventory-related charges of approximately \$1.1 million, \$1.1 million, and \$2.4 million, respectively, primarily as a result of changes in customer forecasts.

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

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

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

The semiconductor equipment industry is intensely competitive.

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

In addition, with the acquisition of Kita in 2017, we increased our investments in our test contactor business, and announced significant growth targets for the business over the next several years. The test contactor market is fragmented, with many entrenched regional players, and subject to intense price competition and also high customer support requirements. We believe that customer support and responsiveness and an ability to consistently meet tight deadlines is critical to our success. If we are unable to reduce the cost of our test contactor products, while also

meeting customer support requirements and deadlines, then we expect that these competitive conditions would negatively impact our gross margin and operating results in the foreseeable future.

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

Semiconductor equipment and processes are subject to rapid technological change. We believe that our future success will depend in part on our ability to enhance existing products and develop new products with improved performance capabilities. We expect to continue to invest heavily in research and development and must manage product transitions successfully, as introductions of new products, including the products obtained in our acquisitions, may adversely impact sales and/or margins of existing products. In addition, the introduction of new products by us or by our competitors, the concentration of our revenues in a limited number of large customers, the migration to new semiconductor testing methodologies and the custom nature of our inventory parts increases the risk that our established products and related inventory may become obsolete, resulting in significant excess and obsolete inventory exposure. This exposure resulted in charges to operations during each of the years in the three-year period ended December 30, 2017. Future inventory write-offs and increased inventory reserve requirements could have a material adverse impact on our results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

The semiconductor equipment industry is characterized by dramatic and sometimes rapid changes in demand for its products. These are generally dictated by introduction of new consumer products, launch of new model vehicles, implementation of new communications infrastructure, or in response to an increase in industrial equipment and machinery that utilizes semiconductors. A number of other factors including changes in integrated circuit design and packaging may affect demand for our products. Sudden changes in demand for semiconductor equipment commonly occur, and have a significant impact on our operations. We have in the past and may in the future experience difficulties, particularly in manufacturing, in training and recruiting the large number of additions to our workforce. The volatility in headcount and business levels, combined with the seasonal nature of the semiconductor industry, may require that we invest substantial amounts in new operational and financial systems, procedures and controls. We may not be able to successfully adjust our systems, facilities and production capacity to meet our customers' changing requirements. The inability to meet such requirements will have an adverse impact on our business, financial position and results of operations.

The loss of key personnel could adversely impact our business.

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

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

We rely on patent, copyright, trademark and trade secret laws to establish and maintain proprietary rights in our technology and products. Any of our proprietary rights may expire due to patent life, or be challenged, invalidated or circumvented. In addition, from time-to-time, we receive notices from third parties regarding patent or copyright claims. Any such claims, with or without merit, could be time-consuming to defend, result in costly litigation, divert management's attention and resources and cause us to incur significant expenses. In the event of a successful claim of infringement against us and our failure or inability to license the infringed technology or to substitute similar non-infringing technology, our business, financial condition and results of operations could be adversely affected.

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

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

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

We are subject to income and other taxes in the U.S. and numerous foreign jurisdictions. Our tax liabilities are affected by, among other things, the amounts our affiliated entities charge each other for intercompany transactions. We may be subject to ongoing tax examinations in various jurisdictions. Tax authorities may disagree with our intercompany charges or other matters and assess additional taxes. While we regularly assess the likely outcomes of these examinations to determine the appropriateness of our tax provision, tax audits are inherently uncertain and an unfavorable outcome could occur. An unanticipated, unfavorable outcome in any specific period could harm our operating results for that period or future periods. The financial cost and management attention and time devoted to defending income tax positions may divert resources from our business operations, which could harm our business and profitability. Tax examinations may also impact the timing and/or amount of our refund claims. In addition, our effective tax rate in the future could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of our deferred tax assets and liabilities, changes in tax laws and the discovery of new information in the course of our tax return preparation process. In particular, the carrying value of our deferred tax assets and the utilization of our net operating loss and credit carryforwards are dependent on our ability to generate future taxable income in the U.S and other countries. Furthermore, these carryforwards may be subject to annual limitations as a result of changes in Cohu's ownership.

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was signed into law in the United States. The changes in the Tax Act are broad and complex and we continue to examine the impact the Tax Act may have on our business and

financial results. Among its many provisions, the Tax Act imposed a mandatory one-time transition tax on undistributed foreign earnings regardless of whether they are repatriated, reduced the U.S. corporate income tax rate from 35% to 21%, imposed limitations on the deductibility of interest and certain other corporate deductions, and moved from a “worldwide” system of taxation that generally allows deferral of U.S. tax on foreign earnings until repatriated to a “territorial”/dividend exemption system with a minimum tax that will subject foreign earnings to U.S. Tax when earned. In accordance with applicable SEC guidance, we recorded a provisional net tax benefit in the fourth quarter of 2017 however, this provisional tax benefit is subject to change, possibly materially, due to, among other things, changes in estimates, interpretations and assumptions we have made, changes in Internal Revenue Service (IRS) interpretations, the issuance of new guidance, legislative actions, changes in accounting standards or related interpretations in response to the Tax Act and future actions by states within the United States that have not currently adopted the Tax Act. For further information regarding the potential impact of the Tax Act, see “Liquidity and Capital Resources” and “Application of Critical Accounting Estimates and Policies” in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 5 to our consolidated financial statements.

In addition, in October 2015, the Organization for Economic Co-operation and Development (OECD) issued its reports on the 15 focus areas identified in its Action Plan on Base Erosion and Profit Shifting (“BEPS”). Some BEPS measures will require treaty based or legislative action by countries. The final impact of BEPS on Cohu’s income tax provision and liability is currently not quantifiable and is likely to result in additional recordkeeping and administrative cost to implement certain of its requirements.

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

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

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

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

The change in administration in the United States has resulted and may continue to result in significant changes in, and uncertainty with respect to, legislation, regulation and government policy. While it is not possible to predict whether and when any such additional changes will occur, changes at the local, state or federal level could impact fuel cell market adoption in the U.S. and the alternative energy technologies sector in the U.S., generally. Specific legislative and regulatory proposals that could have a material impact on us include, but are not limited to, infrastructure renewal programs; and modifications to international trade policy, such as approvals by the Committee

on Foreign Investment in the United States; public company reporting requirements; environmental regulation and antitrust enforcement.

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

Attempts by others to gain unauthorized access to information technology systems are becoming more sophisticated and are sometimes successful. These attempts, which might be related to industrial or other espionage, include covertly introducing malware to our computers and networks and impersonating authorized users, among others. We seek to detect and investigate all security incidents and to prevent their recurrence, but in some cases, we might be unaware of an incident or its magnitude and effects. The theft, unauthorized use or publication of our intellectual property and/or confidential business information could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. To the extent that any security breach results in inappropriate disclosure of our customers' or licensees' confidential information, we may incur liability as a result. In addition, we may be required to devote additional resources to the security of our information technology systems.

Our implementation of enterprise resource planning (“ERP”) systems may adversely affect our business and results of operations or the effectiveness of internal controls over financial reporting.

We recently implemented a new ERP system within our Switzerland and Malaysia operations, to conform these operations to the same ERP system used within our other principal business locations. We intend to continue to make investments and upgrades to our global ERP systems to support our business requirements. ERP implementations are complex and time-consuming projects that involve substantial expenditures on system software and implementation activities. If we do not effectively implement the ERP system or if the system does not operate as intended, it could adversely affect our financial reporting systems and our ability to produce financial reports and process transactions, the effectiveness of internal controls over financial reporting, and our business, financial condition, results of operations and cash flows.

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

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

Our financial and operating results may vary and fall below analysts' estimates, which may cause the price of our common stock to decline.

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

seasonal, volatile and unpredictable nature of the semiconductor equipment industry;

timing and amount of orders from customers and shipments to customers;

inability to recognize revenue due to accounting requirements;

inventory writedowns;

unexpected expenses or cost overruns in the introduction and support of products;

inability to deliver solutions as expected by our customers; and

intangible and deferred tax asset writedowns.

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

We have experienced significant volatility in our stock price.

A variety of factors may cause the price of our stock to be volatile. The stock market in general, and the market for shares of high-technology companies in particular, including ours, have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. During the three-year period ended December 30, 2017, the price of our common stock has ranged from \$26.17 to \$9.14. The price of our stock may be more volatile than the stock of other companies due to, among other factors, the unpredictable, volatile and seasonal nature of the semiconductor industry, our significant customer concentration, intense competition in the test handler industry, our limited backlog and our relatively low daily stock trading volume. The market price of our common stock is likely to continue to fluctuate significantly in the future, including fluctuations related and unrelated to our performance.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Certain information concerning our principal properties at December 30, 2017, is set forth below:

<u>Location</u>	Approximate Sq. Footage	Ownership
Poway, California ⁽¹⁾	147,000	Leased
Kolbermoor, Germany	40,000	Owned
Malacca, Malaysia	84,000	Leased
Calamba City, Laguna, Philippines	51,000	Leased
La Chaux-de-Fonds, Switzerland	34,000	Leased
Osaka, Japan	67,000	Owned

(1) Cohu Corporate offices.

In addition to the locations listed above, we lease other properties primarily for sales and service offices in various locations. We believe our facilities are suitable for their respective uses and are adequate for our present needs.

Item 3. Legal Proceedings.

From time-to-time we are involved in various legal proceedings, examinations by various tax and custom authorities and claims that have arisen in the ordinary course of our business.

The outcome of any litigation, examinations and claims is inherently uncertain. While there can be no assurance, at the present time we do not believe that the resolution of the matters described above will have a material adverse effect on our assets, financial position or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****(a) Market Information**

Cohu, Inc. stock is traded on the NASDAQ Global Select Market under the symbol "COHU". The following table sets forth the high and low sales prices as reported on the NASDAQ Global Select Market during the last two years.

	Fiscal 2017		Fiscal 2016	
	High	Low	High	Low
First Quarter	\$17.83	\$12.64	\$12.93	\$10.87
Second Quarter	\$21.64	\$16.30	\$12.60	\$10.49
Third Quarter	\$23.88	\$15.55	\$12.00	\$10.01
Fourth Quarter	\$26.17	\$20.30	\$14.43	\$10.72

Holdings

At February 16, 2018, Cohu had 412 stockholders of record.

Dividends

We have paid consecutive quarterly dividends since 1977 and, as discussed below, expect to continue doing so. Cash dividends, per share, declared in 2017 and 2016 were as follows:

	Fiscal 2017	Fiscal 2016
First Quarter	\$0.06	\$0.06
Second Quarter	\$0.06	\$0.06
Third Quarter	\$0.06	\$0.06
Fourth Quarter	\$0.06	\$0.06

Total \$0.24 \$0.24

We intend to continue to pay quarterly dividends subject to capital availability and periodic determinations by our Board of Directors that cash dividends are in the best interests of our stockholders. Our dividend policy may be affected by, among other items, our views on potential future capital requirements, including those related to research and development, investments and acquisitions, legal risks and stock repurchases.

Equity Compensation Plan Information

The following table summarizes information with respect to equity awards under Cohu's equity compensation plans at December 30, 2017 (*in thousands, except per share amounts*):

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) (1)	Weighted average exercise price of outstanding options, warrants and rights (b) (2)	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a))(c) (3)
Equity compensation plans approved by security holders	1,787	\$ 10.20	2,104
Equity compensation plans not approved by security holders	- 1,787	- \$ 10.20	- 2,104

(1) Includes options, restricted stock units ("RSUs") and performance stock units ("PSUs") outstanding under Cohu's equity incentive plans. No stock warrants or other rights were outstanding as of December 30, 2017.

(2) The weighted average exercise price of outstanding options, warrants and rights does not take RSUs and PSUs into account as RSUs and PSUs have a de minimus purchase price.

(3) Includes 601,340 shares of common stock reserved for future issuance under the Cohu 1997 Employee Stock Purchase Plan.

For further details regarding Cohu's equity compensation plans, see Note 6, "Employee Benefit Plans", included in Part IV, Item 15(a) of this Form 10-K.

Comparative Stock Performance Graph

The information contained in this Stock Performance Graph section shall not be deemed to be “soliciting material” or “filed” with the SEC or subject to the liabilities of Section 18 of the Exchange Act except to the extent that Cohu specifically incorporates it by reference into a document filed under the Securities Act or the Exchange Act.

The graph below compares the cumulative total stockholder return on the common stock of Cohu for the last five fiscal years with the cumulative total return on custom Peer Group Indexes and a NASDAQ Market Index over the same period (assuming the investment of \$100 in Cohu’s common stock, Peer Group Index and NASDAQ Market Index on December 29, 2012 and reinvestment of all dividends). The custom Peer Group Index is comprised of the peer group companies associated with our performance stock units issued under our equity incentive plan. In 2017, the custom Peer Group Index was comprised of Advanced Energy Industries Inc., Advantest Corp, ASM Pacific Technology Ltd, Axcelis Technologies Inc., BE Semiconductor Industries NV, Brooks Automation Inc., Cabot Microelectronics Corp, Camtek Ltd, Electro Scientific Industries Inc., FormFactor Inc., Kulicke and Soffa Industries Inc., Micronics Japan Co Ltd, MKS Instruments Inc., Nanometrics Inc., Photronics Inc., Rudolph Technologies Inc., Teradyne Inc., Ultra Clean Holdings Inc., Veeco Instruments Inc.(includes Ultratech through acquisition) and Xcerra Corp. This peer group is revised annually to reflect acquisitions and to include additional equivalent companies in the semiconductor equipment market to ensure a sufficiently large number of companies in the peer group composition to enable a meaningful comparison of our stock performance. As it relates to our 2017 Peer Group Index, the only change from peer group companies used in 2016 resulted from Veeco Instruments Inc.’s acquisition of Ultratech, Inc.

	2012	2013	2014	2015	2016	2017
Cohu, Inc.	\$100	\$100	\$121	\$133	\$146	\$234
NASDAQ Index	\$100	\$142	\$162	\$173	\$187	\$242
Peer Group	\$100	\$119	\$133	\$120	\$168	\$260

Item 6. Selected Financial Data.

The following selected financial data should be read in conjunction with Cohu's consolidated financial statements and notes thereto included in Part IV, Item 15(a) and with management's discussion and analysis of financial condition and results of operations, included in Part II, Item 7. In June 2015, we sold our mobile microwave communications equipment business and in June 2014, we sold our video camera business. The operating results of these businesses are being presented as discontinued operations for all periods presented. Additional information related to the sale of our mobile microwave communications equipment business is included in Note 11, "Discontinued Operations" in Part IV, Item 15(a) of this Form 10-K.

Years Ended, <i>(in thousands, except per share data)</i>	Dec. 30 2017 ⁽¹⁾	Dec. 31 2016 ⁽³⁾	Dec. 26 2015	Dec. 27 2014	Dec. 28 2013
Consolidated Statement of Operations Data:					
Net sales	\$352,704	\$282,084	\$269,654	\$316,629	\$214,511
Income (loss) from continuing operations	\$33,121 ⁽²⁾	\$3,260	\$5,792 ⁽⁴⁾	\$14,780	\$(28,548)
Net income (loss)	\$32,843 ⁽²⁾	\$3,039	\$250	\$8,708	\$(33,418)
Income (loss) from continuing operations - basic	\$1.19	\$0.12	\$0.22	\$0.58	\$(1.15)
Income (loss) from continuing operations - diluted	\$1.15	\$0.12	\$0.22	\$0.57	\$(1.15)
Net income (loss) - basic	\$1.18	\$0.11	\$0.01	\$0.34	\$(1.34)
Net income (loss) - diluted	\$1.14	\$0.11	\$0.01	\$0.33	\$(1.34)
Cash dividends per share, paid quarterly	\$0.24	\$0.24	\$0.24	\$0.24	\$0.24
Consolidated Balance Sheet Data:					
Total Consolidated Assets	\$420,457	\$345,512	\$345,346	\$344,765	\$345,423
Working Capital	\$212,171	\$176,460	\$171,272	\$142,194	\$125,837

(1) On January 4, 2017, we purchased Kita and the results of its operations have been included in our consolidated financial statements since that date.

(2) Results for the year ended December 30, 2017, include the impact from the Tax Act. See Note 5, "Income Taxes" in Part IV, Item 15(a) of this Form 10-K for additional information.

(3) The year ended December 31, 2016 consists of 53 weeks. All other years in the table above are comprised of 52 weeks.

(4) Income from continuing operations for the year ended December 26, 2015, includes a gain on the sale of facility totaling \$3.2 million.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**OVERVIEW**

Cohu is a leading supplier of semiconductor test and inspection handlers, micro-electro mechanical system (MEMS) test modules, test contactors and thermal subsystems used by global semiconductor manufacturers and test subcontractors. Our business is significantly dependent on capital expenditures by semiconductor manufacturers and test subcontractors, which in turn is dependent on the current and anticipated market demand for semiconductors that is subject to seasonal trends. We expect that the semiconductor equipment industry will continue to be seasonal in part because consumer electronics, automotive and mobility, the principal end markets for integrated circuits, are highly dynamic industries and demand has traditionally fluctuated with global consumer spending. In light of these conditions, our results can vary significantly year-over-year.

For the year ended December 30, 2017, our orders increased 41% compared to 2016 and, as a result, our net sales were up 25% year-over-year to \$352.7 million. The increase in sales were driven by market share gains for semiconductor test handlers used for testing devices used in automotive, mobility and IoT (Internet of Things) markets and growth in the test contactor market. Customer test cell utilization remains strong and long-term, we continue to see momentum in the automotive, mobility and industrial markets and are optimistic about the prospects for our business due to the increasing ubiquity of semiconductors, the diminishing impact of parallel test, increasing semiconductor complexity and increasing quality demands from semiconductor customers. We are focused on growing our market share in the semiconductor test handling and test contactor markets, and expanding into the semiconductor inspection market.

Application of Critical Accounting Estimates and Policies

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

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

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

Revenue Recognition: We generally recognize revenue upon shipment and title passage for established products (i.e., those that have previously satisfied customer acceptance requirements) that provide for full payment tied to shipment. Revenue for products that have not previously satisfied customer acceptance requirements or from sales where customer payment dates are not determinable is recognized upon customer acceptance. In certain instances, customer payment terms may provide that a minority portion (e.g. up to 20%) of the equipment purchase price be paid only upon customer acceptance. In those situations, the majority portion (e.g. 80%) of revenue where the contingent payment is tied to shipment and the entire product cost of sale are recognized upon shipment and passage of title and the minority portion of the purchase price related to customer acceptance is deferred and recognized upon receipt of customer acceptance. For arrangements containing multiple elements the revenue relating to the undelivered elements is deferred using the relative selling price method utilizing estimated sales prices until delivery of the deferred elements. We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on

the future delivery of products or services, future performance obligations or subject to customer-specified return or adjustment. On shipments where sales are not recognized, gross profit is generally recorded as deferred profit in our consolidated balance sheet, representing the difference between the receivable recorded and the inventory shipped.

On December 31, 2017, the first day of our fiscal 2018, we will adopt ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), which amends the existing accounting standards for revenue recognition. For additional information on the impact this new standard will have on our revenue recognition in the future see recently issued accounting pronouncements in Note 1 “Accounting Policies” in Part IV, Item 15(a) of this Form 10-K.

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

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:

The Tax Cuts and Jobs Act (“Tax Act”) was enacted on December 22, 2017. Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we have made reasonable estimates of the effects and recorded provisional amounts in our financial statements for the year ended December 30, 2017, as provided for in SEC Staff Accounting Bulletin No. 118 (“SAB 118”). As we collect and prepare necessary data, and interpret any additional guidance issued by the U.S. Treasury Department, the IRS or other standard-setting bodies, we may make adjustments to the provisional amounts. Those adjustments may materially impact the provision for income taxes and the effective tax rate in the period in which the adjustments are made. The accounting for the tax effects of the enactment of the Tax Act will be completed in 2018.

We estimate our liability for income taxes based on the various jurisdictions where we conduct business. This requires us to estimate our (i) current taxes; (ii) temporary differences that result from differing treatment of certain items for tax and accounting purposes and (iii) unrecognized tax benefits. Temporary differences result in deferred tax assets and liabilities that are reflected in the consolidated balance sheet. The deferred tax assets are reduced by a valuation allowance if, based upon all available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Establishing, reducing or increasing a valuation allowance in an accounting period generally results in an increase or decrease in tax expense in the statement of operations. We must make significant judgments to determine the provision for income taxes, deferred tax assets and liabilities, unrecognized tax benefits and any valuation allowance to be recorded against deferred tax assets. Our gross deferred tax asset balance as of December 30, 2017 was approximately \$37.7 million, with a valuation allowance of approximately \$31.5 million. Our deferred tax assets consist primarily of reserves and accruals that are not yet deductible for tax and tax credit and net operating loss carry-forwards.

Segment Information: We applied the provisions of Accounting Standards Codification (“ASC”) Topic 280, *Segment Reporting*, (“ASC 280”), which sets forth a management approach to segment reporting and establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products, major customers and the geographies in which the entity holds material assets and reports revenue. An operating segment is defined as a component that engages in business activities whose operating results are reviewed by the chief operating decision maker and for which discrete financial information is available. Based on the provisions of ASC 280, we

have determined that our identified operating segments, which are Digital Test Handlers (DTH), Analog Test Handlers (ATH) and Integrated Test Solutions (ITS), 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 equipment.

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

We conduct our annual impairment test as of October 1st of each year, and have determined there is no impairment as of October 1, 2017 as we determined that 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. As of December 30, 2017, we do not believe there have been any events or circumstances that would require us to perform an interim goodwill impairment review. In the event we determine that an interim goodwill impairment review is required, in a future period, the review may result in an impairment charge, which would have a negative impact on our results of operations.

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

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 Note 1, "Recent Accounting Pronouncements" in Part IV, Item 15(a) of this Form 10-K.

RESULTS OF OPERATIONS*Recent Transactions Impacting Results of Operations*

On January 4, 2017, we completed the acquisition of Kita and the results of its operations have been included in our consolidated financial statements since that date. In June 2015, we sold our mobile microwave communications equipment business and the operating results of this business and subsequent adjustments to the fair value of contingent consideration have been presented as discontinued operations. Unless otherwise indicated, the discussion below covers the comparative results from continuing operations.

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

	2017	2016	2015
Net sales	100.0%	100.0%	100.0%
Cost of sales	(60.1)	(66.4)	(67.0)
Gross margin	39.9	33.6	33.0
Research and development	(11.5)	(12.4)	(12.3)
Selling, general and administrative	(18.5)	(19.3)	(19.0)
Gain on sale of facility	-	-	1.2
Income from operations	9.9 %	1.9 %	2.9 %

2017 Compared to 2016*Net Sales*

Cohu's consolidated net sales increased 25.0% from \$282.1 million in 2016 to \$352.7 million in 2017. Consolidated net sales in 2017 were up significantly as a result of the improved business conditions within the semiconductor industry and our success in growing share in the test handler and test contactor markets. Our increased sales in 2017 were driven by demand for equipment to test semiconductor devices used in automotive, mobility and IoT markets. Consolidated net sales in 2017 also include Kita, which was acquired on January 4, 2017. Kita's net sales for 2017 were \$19.2 million.

Gross Margin

Gross margin consists of net sales less cost of sales. Cost of sales consists primarily of the materials, assembly and test labor and overhead from operations. Our gross margin can fluctuate due to a number of factors, including, but not limited to, the mix of products sold, product support costs, increase to inventory reserves or the sale of previously reserved inventory and utilization of manufacturing capacity. Our gross margin, as a percentage of net sales, increased to 39.9% in 2017 from 33.6% in 2016. Gross margin improved in 2017 due to favorable product mix, lower manufacturing costs as a result of our transition of volume handler manufacturing from the U.S. and Europe to Asia, as well as a significant increase in business volume which enabled us to better leverage our fixed costs. In 2017 our gross margin benefitted by \$2.5 million from lower intangible asset amortization primarily due to certain assets being fully amortized in 2016 offset, in part, by the amortization of \$1.4 million related to the purchase accounting inventory step-up adjustment recorded in connection with our acquisition of Kita.

We compute the majority of our excess and obsolete inventory reserve requirements using a one-year inventory usage forecast. During both 2017 and 2016, we recorded net charges to cost of sales of approximately \$1.1 million, for excess and obsolete inventory. While we believe our reserves for excess and obsolete inventory and lower of cost or market concerns are adequate to cover known exposures at December 30, 2017, 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. Our future operating results depend, to a considerable extent, on our ability to maintain a competitive advantage in the products we provide, and historically we have maintained our commitment to investing in R&D in order to be able to continue to offer new products to our customers. R&D expense in 2017 was \$40.7 million, or 11.5% of net sales, increasing from \$34.8 million, or 12.4% of net sales in 2016. New product development programs resulted in higher R&D labor and material expense in 2017 which was offset, in part, by \$1.1 million of development cost reimbursements received under a cost-sharing arrangement. During 2016, we received cost reimbursements totaling \$1.6 million under the same agreement which was executed in the first quarter of 2016.

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. As a result of increased business volume in 2017, SG&A expense as a percentage of net sales decreased to 18.5% of net sales in 2017, from 19.3% in 2016, while increasing in absolute dollars from \$54.3 million in 2016 to \$65.2 million in 2017. SG&A expense in 2017 was negatively affected by the strengthening of the Swiss Franc and Euro against the U.S. Dollar, which resulted in the recognition of \$3.0 million in foreign currency transaction losses for the year. In 2016, SG&A expense benefitted from the strengthening of the U.S. Dollar, which resulted in the recognition of \$2.6 million in foreign currency transaction gains for the year. Manufacturing transition and employee severance costs were \$1.0 million lower in 2017 as a result of the successful transition of certain volume handler manufacturing to Asia during 2016.

Costs incurred specifically related to completing the acquisition of Kita in 2017 totaled \$0.4 million and we recorded \$1.4 million of expense related to mark-to-market adjustments made to the fair value of the Kita contingent consideration liability. In 2016, costs incurred specifically related to completing the acquisition of Kita totaled \$1.8 million. Kita’s SG&A expense in 2017 was \$5.5 million.

In 2017 and 2016, we recorded \$1.2 million and \$0.6 million of expense, respectively, related to a reduction of an indemnification receivable related to an uncertain tax position recorded in the Ismecca acquisition. In connection with this reduction we also booked a corresponding amount as a credit to our income tax provision and, as a result, the impact of this reduction on net income was zero.

Income Taxes

The Tax Act was enacted on December 22, 2017, and introduces significant changes to U.S. income tax law. Effective in 2018, the Tax Act reduces the U.S. statutory tax rate from 35% to 21% and creates new taxes on certain foreign-sourced earnings and certain related-party payments, which are referred to as the global intangible low-taxed income tax and the base erosion and anti-abuse tax, respectively. In addition, in 2017 we were subject to a one-time transition tax on accumulated foreign subsidiary earnings not previously subject to U.S. income tax. Accounting for the income tax effects of the Tax Act requires significant judgments and estimates in the interpretation and calculations of the provisions of the Tax Act.

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we have made reasonable estimates of the effects and recorded provisional amounts in our financial statements for the year ended December 30, 2017. As we collect and prepare necessary data, and interpret any additional guidance issued by the U.S. Treasury Department, the IRS or other standard-setting bodies, we may make adjustments to the provisional

amounts. Those adjustments may materially impact the provision for income taxes and the effective tax rate in the period in which the adjustments are made. The accounting for the tax effects of the enactment of the Tax Act will be completed in 2018.

The income tax provision expressed as a percentage of pre-tax income in 2017 and 2016 was 6.3% and 45.7%, respectively. The income tax provision for the years ended December 30, 2017, and December 31, 2016, differs from the U.S. federal statutory rate primarily due to the impact of the Tax Act, releases from statute expirations, non-deductible transaction costs, tax credits, stock compensation, changes in the valuation allowance on our deferred tax assets, foreign income taxed at different rates and other factors.

Companies are required to assess whether a valuation allowance should be recorded against their deferred tax assets (“DTAs”) based on the consideration of all available evidence, using a “more likely than not” realization standard. The four sources of taxable income that must be considered in determining whether DTAs will be realized are, (1) future reversals of existing taxable temporary differences (i.e. offset of gross deferred tax assets against gross deferred tax liabilities); (2) taxable income in prior carryback years, if carryback is permitted under the tax law; (3) tax planning strategies and (4) future taxable income exclusive of reversing temporary differences and carryforwards.

In assessing whether a valuation allowance is required, significant weight is to be given to evidence that can be objectively verified. We have evaluated our DTAs each reporting period, including an assessment of our cumulative income or loss over the prior three-year period and future periods, to determine if a valuation allowance was required. A significant negative factor in our assessment was Cohu's three-year cumulative U.S. loss history at the end of various fiscal periods including 2017.

As a result of our cumulative, three-year U.S. GAAP pretax loss from continuing operations at the end of 2017, we were unable to conclude at December 30, 2017 that it was “more likely than not” that our U.S. DTAs would be realized. We will evaluate the realizability of our DTAs at the end of each quarterly reporting period in 2018 and, should circumstances change, it is possible the remaining valuation allowance, or a portion thereof, will be reversed in a future period.

Our valuation allowance on our DTAs at December 30, 2017, and December 31, 2016, was approximately \$31.5 million and \$44.7 million, respectively. The remaining gross DTAs for which a valuation allowance was not recorded are realizable primarily through future reversals of existing taxable temporary differences.

As the realization of DTAs is determined by tax jurisdiction, the deferred tax liabilities recorded as part of the 2008 acquisition of Rasco, a German corporation, the fiscal 2013 acquisition of Ismeca, a Swiss Corporation, and the fiscal 2017 acquisition of Kita Japan, a Japanese company were not a source of taxable income in assessing the realization of our DTAs in the U.S.

For a full reconciliation of our effective tax rate to the U.S. federal statutory rate and further explanation of our provision for income taxes, see Note 5, "Income Taxes", included in Part IV, Item 15(a) of this Form 10-K, which is incorporated herein by reference.

Income from Continuing Operations and Net Income

As a result of the factors set forth above, our income from continuing operations was \$33.1 million in 2017, compared to \$3.3 million in 2016. Including the results of our discontinued operations, our net income in 2017 and 2016 was \$32.8 million and \$3.0 million, respectively.

2016 Compared to 2015

Net Sales

Cohu's consolidated net sales increased 4.6% from \$269.7 million in 2015 to \$282.1 million in 2016. Our consolidated net sales in 2016 were up from 2015 and reflected improved business conditions in the semiconductor industry and demand for equipment for testing devices used in mobile, automotive and computing applications.

Gross Margin

Our gross margin, as a percentage of net sales, increased to 33.6% in 2016 from 33.0% in 2015. During 2016 and 2015, we recorded net charges to cost of sales of approximately \$1.1 million and \$2.4 million, respectively, for excess and obsolete inventory.

R&D Expense

R&D expense in 2016 was \$34.8 million, or 12.4% of net sales, increasing from \$33.1 million, or 12.3% of net sales in 2015. New product development programs resulted in higher R&D labor and material expense being incurred in 2016. These increased costs were partially offset by \$1.6 million of development cost reimbursements received under a cost-sharing arrangement entered into with a customer in the first quarter of 2016.

SG&A Expense

SG&A expense as a percentage of net sales increased to 19.3% in 2016, from 19.0% in 2015, increasing from \$51.2 million in 2015 to \$54.3 million in 2016. Our SG&A expense in 2016 was higher as a result of increased business volume, and during the year we incurred \$1.8 million of costs associated with our acquisition of Kita. SG&A expense in 2016 also includes \$0.6 million of expense related to a reduction of an indemnification receivable related to an uncertain tax position recorded in the Ismeca acquisition. In connection with this reduction we also booked a corresponding amount as a credit to our income tax provision and, as a result, the impact of this reduction on net income was zero. Employee share based compensation expense was \$0.4 million higher in 2016, driven primarily by the number of employee stock options and restricted and performance share awards subject to vesting during the period and the corresponding valuation that was established on the date of grant. Costs incurred in connection with transitioning our manufacturing to Asia and employee severance were \$1.4 million and \$1.0 million in 2016 and 2015, respectively.

Over these two years our SG&A expense has benefitted from the strengthening of the U.S. Dollar, which resulted in the recognition of \$2.6 million and \$1.4 million in foreign currency transaction gains in 2016 and 2015, respectively.

Gain on Sale of Facility

On December 4, 2015, we completed the sale of our headquarters facility located in Poway, California for \$34.1 million. After payment of commissions and other fees associated with the sale we realized net cash proceeds of \$33.3 million, which resulted in a total gain of \$18.5 million. We accounted for this transaction in accordance with ASC subtopic 840-40, *Sale-leaseback transactions*, and recognized a gain on the completion of the sale totaling \$3.2 million. The portion of the gain not recognized at the time the sale was completed has been deferred and is being recognized on a straight-line basis over the 10-year term of the lease in line with the recognition of rental expense related to the lease. During 2016, we amortized \$2.0 million of the deferred gain to income.

Income Taxes

The income tax provision expressed as a percentage of pre-tax income in 2016 and 2015 was 45.7% and 27.6%, respectively. The income tax provision for the years ended December 31, 2016, and December 26, 2015, differs from the U.S. federal statutory rate primarily due to releases from statute expirations, non-deductible transaction costs, tax credits, stock compensation, changes in the valuation allowance on our deferred tax assets, foreign income taxed at different rates and other factors.

Income from Continuing Operations and Net Income

As a result of the factors set forth above, our income from continuing operations was \$3.3 million in 2016, compared to \$5.8 million in 2015. Including the results of our discontinued operations, our net income in 2016 was \$3.0 million as compared to \$0.3 million in 2015.

LIQUIDITY AND CAPITAL RESOURCES

Our 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 business 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. We believe that our sources of liquidity will be sufficient to satisfy our anticipated cash requirements through at least the next 12 months. Our liquidity could be negatively affected by a decrease in demand for our products. In addition, we may make acquisitions or increase our capital expenditures and may need to raise additional capital through debt or equity financing to provide for greater flexibility to fund these activities. Additional financing may not be available or not available on terms favorable to us.

Liquidity

Working Capital: The following summarizes our cash, cash equivalents, short-term investments and working capital at December 30, 2017 and December 31, 2016:

<i>(in thousands)</i>	2017	2016	Increase	Percentage Change	
Cash, cash equivalents and short-term investments	\$155,615	\$128,035	\$27,580	21.5	%
Working capital	\$212,171	\$176,460	\$35,711	20.2	%

As of December 30, 2017, \$86.3 million of our cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we may be required to accrue and pay foreign withholding taxes if we repatriate these funds. In 2017 we accrued \$2.0 million of foreign withholding tax that would be payable in the event we repatriate funds from certain of our foreign subsidiaries. Beginning in 2018, earnings realized in foreign jurisdictions will be subject to U.S. tax in accordance with the Tax Act.

Cash Flows

Operating Activities: Cash provided by operating activities consists of 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, mark-to-market charge on the Kita contingent consideration, amortization of inventory step-up and the loss from our divestiture of BMS. Excluding the impact of the acquisition of Kita, our net cash flows provided by operating activities in 2017 totaled \$39.8 million compared to \$24.5 million in 2016. Cash provided by operating activities also was impacted by changes in current assets and liabilities which included increases in inventories of \$12.2 million, accounts receivable of \$3.3 million, and accounts payable of \$4.2 million. Material purchases made in advance of product shipments scheduled to occur in the first quarter of 2018 resulted in an increase in our inventories. Accounts receivable increased as a result increased business volume and the timing of the resulting cash conversion cycle. The increase in accounts payable resulted from increased business volume in the fourth quarter of 2017 and the timing of payments made to our suppliers.

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 acquisitions, asset disposals and business divestitures. Our net cash used in investing activities in 2017 totaled \$7.0 million and included \$11.7 million used for the acquisition of Kita. The acquisition of Kita was a strategic transaction to expand our total available market, extend our market leadership and broaden our product offerings. Investing activities in 2017 were also impacted by \$37.0 million in cash used for purchases of short-term investments offset by \$47.7 million in net proceeds from sales and maturities 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. Additions to property, plant and equipment in 2017 were \$6.1 million and were made to support our operating and development activities.

Financing Activities: Cash flows from financing activities consist primarily of net proceeds from the issuance of common stock under our stock option and employee stock purchase plans and cash used to pay dividends to our stockholders. We issue stock options and maintain an employee stock purchase plan as components of our overall employee compensation. Net proceeds from the issuance of our common stock under our equity incentive and employee stock purchase plans, totaled \$10.4 million during 2017. During 2017, we paid dividends totaling \$6.6 million, or \$0.24 per common share. On February 15, 2018, we announced a cash dividend of \$0.06 per share on our common stock, payable on April 13, 2018, to stockholders of record as of February 27, 2018. We intend to continue to pay quarterly dividends subject to capital availability and periodic determinations by our Board of Directors that cash dividends are in the best interests of our stockholders. During 2017, we repaid \$1.6 million of term loans held by financial institutions.

Capital Resources

In connection with the acquisition of Kita on January 4, 2017, we assumed a series of revolving credit facilities with various financial institutions in Japan. The revolving credit facilities renew monthly and provide Kita with access to working capital totaling up to \$6.2 million. At December 30, 2017, total borrowings outstanding under the revolving lines of credit were \$3.1 million. As these credit facility agreements renew monthly, they have been included in short-term borrowings in our consolidated balance sheet. We also assumed long-term term loans from a series of Japanese financial institutions totaling \$5.9 million primarily related to the expansion of Kita's facility in Osaka, Japan. The loans are collateralized by the facility and land. The loans carry interest rates ranging from 0.05% to 0.45% and expire at various dates through 2034. At December 30, 2017, \$1.3 million of the term loans have been included in current installments of long-term debt in our consolidated balance sheet. The revolving lines of credit and term loans are denominated in Japanese Yen and, as a result, amounts will fluctuate as a result of changes in currency exchange rates.

We have a secured letter of credit facility (the "Secured Facility") under which Bank of America, N.A., has agreed to administer the issuance of letters of credit on behalf of Cohu and our subsidiaries. The Secured Facility requires us to maintain deposits of cash or other approved investments, which serve as collateral, in amounts that approximate our outstanding standby letters of credit. As of December 30, 2017, no amounts were outstanding under standby letters of

credit. Our wholly owned subsidiary Ismeca Semiconductor Holdings SA (“Ismeca”) has an agreement with UBS (the “Ismeca Facility”) under which they administer a line of credit on behalf of Ismeca. Total borrowings available under the Ismeca Facility are 2.0 million Swiss Francs and at December 30, 2017, no amounts were outstanding.

We expect that we will continue to make capital expenditures to support our business and we anticipate that present working capital will be sufficient to meet our operating requirements for at least the next twelve months.

Contractual Obligations

The following table summarizes our significant contractual obligations at December 30, 2017, and the effect such obligations are expected to have on our liquidity and cash flows in future periods. This table excludes amounts already recorded on our balance sheet as current liabilities at December 30, 2017. Amounts excluded include our liability for unrecognized tax benefits that totaled approximately \$10.3 million at December 30, 2017. We are currently unable to provide a reasonably reliable estimate of the amount or period(s) the cash settlement of this liability may occur.

<i>(in thousands)</i>	2018	2019	2020	2021	2022	Thereafter	Total
Non-cancelable operating leases	\$3,280	\$2,930	\$2,664	\$2,636	\$2,687	\$ 7,264	\$21,461

The table above does not include pension, post-retirement benefit and warranty obligations because it is not certain when these liabilities will be funded. For additional information regarding our pension and post-retirement benefits obligations see Note 6, “Employee Benefit Plans” and for more information on our contractual obligations, see Note 9, “Guarantees” in Part IV, Item 15(a) of this Form 10-K.

In addition to the lease commitments disclosed above, our contractual obligations also include Kita’s outstanding borrowings of \$9.0 million at December 30, 2017, of which approximately \$1.3 million will be due in 2018, \$1.2 million will be due in 2019, \$1.0 million will be due in 2020, \$1.1 million will be due in 2021, \$0.8 million will be due in 2022 and \$3.6 million will be due thereafter.

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 December 30, 2017, no amounts were outstanding under standby letters of credit.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Investment and Interest Rate Risk.

At December 30, 2017, our investment portfolio included short-term, fixed-income investment securities with a fair value of approximately \$21.3 million. These securities are subject to interest rate risk and will likely decline in value if interest rates increase. Our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. As we classify our short-term securities as available-for-sale, no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary. Due to the relatively short duration of our investment portfolio, an immediate ten percent change in interest rates would have no material impact on our financial condition or results of operations.

We evaluate our investments periodically for possible other-than-temporary impairment by reviewing factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and our ability and intent to hold the investment for a period of time sufficient for anticipated recovery of market value. As of December 30, 2017, we had \$13.2 million investments with loss positions. We evaluated the nature of these investments, credit worthiness of the issuer and the duration of these impairments and concluded that these losses were temporary and we have the ability and intent to hold these investments to maturity.

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 with the acquisition of Kita the Japanese Yen. These fluctuations can impact our reported earnings.

Fluctuations in currency exchange rates also impact the U.S. Dollar amount of our net investment in foreign operations. The assets and liabilities of our foreign subsidiaries are translated into U.S. Dollars at the exchange rates in effect at the fiscal year-end balance sheet date. Income and expense accounts are translated at an average exchange rate during the year 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 income. As a result of fluctuations in certain foreign currency exchange rates in relation to the U.S. Dollar as of December 30, 2017 compared to December 31, 2016, our stockholders' equity increased by \$11.3 million as a result of the foreign currency translation.

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 December 30, 2017 would result in an approximate \$16.0 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 December 30, 2017 would result in an approximate \$16.0 million negative translation adjustment recorded in other comprehensive income within stockholders' equity.

Item 8. Financial Statements and Supplementary Data.

The information required by this Item is included in Part IV, Item 15(a).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness 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 conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of December 30, 2017, the end of the period covered by this annual report.

Management's Annual Report on Internal Control Over Financial Reporting - Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on our evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 30, 2017.

Ernst & Young LLP, the independent registered public accounting firm that audited the Consolidated Financial Statements included in this Annual Report on Form 10-K, has also audited the effectiveness of our internal control over financial reporting as of December 30, 2017, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Cohu, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Cohu, Inc.'s internal control over financial reporting as of December 30, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Cohu, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 30, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 30, 2017, and December 31, 2016, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 30, 2017, and the related notes and the financial statement schedule listed in the Index at Item 15(a) and our report dated March 2, 2018, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Diego, California

March 2, 2018

Changes in Internal Control Over Financial Reporting – There have been no changes in our internal control over financial reporting that occurred during the fourth quarter of 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information under the heading “Executive Officers of the Registrant” in Part I, Item 1 of this Form 10-K is incorporated by reference in this section. The other information required by this item is hereby incorporated by reference to the Company’s definitive proxy statement, which will be filed with the Securities and Exchange Commission (“SEC”) within 120 days after the close of fiscal 2017.

Code of Business Conduct and Code of Ethics

Cohu has adopted a code of business conduct and ethics for directors, officers and employees. The code is available on the Investor Relations section of our website at www.cohu.com. We intend to make all required disclosures concerning any amendments to, or waivers from, our code of ethics on our website, within four business days of such amendment or waiver.

Corporate Governance Guidelines and Certain Committee Charters

Cohu has adopted Corporate Governance Guidelines as well as charters for its Audit, Compensation and Nominating and Governance Committees. These documents are available on the Investor Relations section of our website at www.cohu.com.

The information on our website is not incorporated by reference in or considered to be a part of this Annual Report on Form 10-K.

Item 11. Executive Compensation.

Information regarding Executive Compensation is hereby incorporated by reference to the Company's definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2017.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information regarding Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters is hereby incorporated by reference to the Company's definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2017.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information regarding Certain Relationships and Related Transactions, and Director Independence is hereby incorporated by reference to the Company's definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2017.

Item 14. Principal Accounting Fees and Services.

Information regarding the Principal Accounting Fees and Services is hereby incorporated by reference to the Company's definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2017.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K.

(1) Financial Statements

The following consolidated financial statements of Cohu, Inc., including the report thereon of Ernst & Young LLP, are included in this Annual Report on Form 10-K beginning on page 32:

<u>Description</u>	<u>Form 10-K Page Number</u>
<u>Consolidated Balance Sheets at December 30, 2017 and December 31, 2016</u>	32
<u>Consolidated Statements of Income for each of the three years in the period ended December 30, 2017</u>	33
<u>Consolidated Statements of Comprehensive Income (Loss) for each of the three years in the period ended December 30, 2017</u>	34
<u>Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 30, 2017</u>	35
<u>Consolidated Statements of Cash Flows for each of the three years in the period ended December 30, 2017</u>	36
<u>Notes to Consolidated Financial Statements</u>	37
Report of Independent Registered Public Accounting Firm	62

(2) Financial Statement Schedule

Schedule II – Valuation and Qualifying Accounts 66

All other financial statement schedules have been omitted because the required information is not applicable or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements or the notes thereto.

(3) Exhibits

The exhibits listed under Item 15(b) hereof are filed with, or incorporated by reference into, this Annual Report on Form 10-K.

COHU, INC.
CONSOLIDATED
BALANCE
SHEETS

*(in thousands,
except par value)*

	December 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 134,286	\$ 96,045
Short-term investments	21,329	31,990
Accounts receivable, net	71,125	63,019
Inventories:		
Raw materials and purchased parts	27,918	23,037
Work in process	25,130	17,599
Finished goods	9,037	4,866
	62,085	45,502
Other current assets	8,613	8,593
Total current assets	297,438	245,149
Property plant and equipment, net	34,172	18,234
Goodwill	65,613	58,849
Intangible assets, net	16,748	17,835
Other assets	6,486	5,445
	\$ 420,457	\$ 345,512
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	\$ 3,108	\$ -
Current installments of long-term debt	1,280	-
Accounts payable	37,556	31,444
Accrued compensation and benefits	20,178	14,770
Accrued warranty	4,280	3,737
Deferred profit	6,608	6,886
Income taxes payable	2,159	1,920
Other accrued liabilities	10,098	9,932
Total current liabilities	85,267	68,689
Accrued retirement benefits	18,544	15,673
Noncurrent deferred gain on sale of facility	10,233	11,689
Deferred income taxes	2,921	5,852
Noncurrent income tax liabilities	6,270	6,375
Long-term debt	4,575	-

Other accrued liabilities	3,556	1,765
Stockholders' equity:		
Preferred stock, \$1 par value; 1,000 shares authorized, none issued	-	-
Common stock, \$1 par value; 60,000 shares authorized, 28,489 shares issued and outstanding in 2017 and 26,842 shares in 2016	28,489	26,842
Paid-in capital	127,663	111,950
Retained earnings	150,726	124,559
Accumulated other comprehensive loss	(17,787)	(27,882)
Total stockholders' equity	289,091	235,469
	\$420,457	\$345,512

The accompanying notes are an integral part of these statements.

COHU, INC.
CONSOLIDATED
STATEMENTS
OF INCOME

*(in thousands,
except per share
amounts)*

	Years ended		
	December 30, 2017	December 31, 2016	December 26, 2015
Net sales	\$352,704	\$282,084	\$269,654
Cost and expenses:			
Cost of sales	211,986	187,256	180,616
Research and development	40,737	34,841	33,107
Selling, general and administrative	65,233	54,322	51,170
Gain on sale of facility	-	-	(3,198)
	317,956	276,419	261,695
Income from operations	34,748	5,665	7,959
Interest income	617	342	44
Income from continuing operations before taxes	35,365	6,007	8,003
Income tax provision	2,244	2,747	2,211
Income from continuing operations	33,121	3,260	5,792
Loss from discontinued operations, net of tax	(278)	(221)	(5,542)
Net income	\$32,843	\$3,039	\$250
Income (loss) per share:			
Basic:			
Income from continuing operations	\$1.19	\$0.12	\$0.22
Loss from discontinued operations	(0.01)	(0.01)	(0.21)
Net income	\$1.18	\$0.11	\$0.01
Diluted:			
Income from continuing operations	\$1.15	\$0.12	\$0.22
Loss from discontinued operations	(0.01)	(0.01)	(0.21)
Net income	\$1.14	\$0.11	\$0.01
Weighted average shares used in computing income (loss) per share:			
Basic	27,836	26,659	26,057
Diluted	28,916	27,480	26,788

The accompanying notes are an integral part of these statements.

COHU, INC.
CONSOLIDATED
STATEMENTS OF
COMPREHENSIVE
INCOME (LOSS)

(in thousands)

	Years ended		
	December 30, 2017	December 31, 2016	December 26, 2015
Net income	\$32,843	\$ 3,039	\$ 250
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	11,345	(5,789)	(11,000)
Adjustments related to postretirement benefits	(1,248)	(316)	(58)
Change in unrealized gain/loss on investments	(2)	(5)	-
Other comprehensive income (loss), net of tax	10,095	(6,110)	(11,058)
Comprehensive income (loss)	\$42,938	\$ (3,071)	\$ (10,808)

The accompanying notes are an integral part of these statements.

COHU, INC.
CONSOLIDATED
STATEMENTS OF
STOCKHOLDERS'
EQUITY

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

	Common stock \$1 par value	Paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance at December 27, 2014	\$ 25,692	\$ 97,938	\$ 134,152	\$ (10,714)	\$ 247,068
Net income	-	-	250	-	250
Changes in cumulative translation adjustment	-	-	-	(11,000)	(11,000)
Adjustments related to postretirement benefits, net of tax	-	-	-	(58)	(58)
Cash dividends - \$0.24 per share	-	-	(6,249)	-	(6,249)
Exercise of stock options	175	1,335	-	-	1,510
Shares issued under ESPP	123	977	-	-	1,100
Shares issued for restricted stock units vested	377	(377)	-	-	-
Repurchase and retirement of stock	(127)	(1,250)	-	-	(1,377)
Share-based compensation expense	-	6,893	-	-	6,893
Balance at December 26, 2015	26,240	105,516	128,153	(21,772)	238,137
Cumulative effect of accounting change ^(a)	-	249	(249)	-	-
Net income	-	-	3,039	-	3,039
Changes in cumulative translation adjustment	-	-	-	(5,789)	(5,789)
Adjustments related to postretirement benefits, net of tax	-	-	-	(316)	(316)
Changes in unrealized gains and losses on investments, net of tax	-	-	-	(5)	(5)
Cash dividends - \$0.24 per share	-	-	(6,384)	-	(6,384)
Exercise of stock options	101	694	-	-	795
Shares issued under ESPP	111	959	-	-	1,070
Shares issued for restricted stock units vested	581	(581)	-	-	-
Repurchase and retirement of stock	(191)	(2,030)	-	-	(2,221)
Share-based compensation expense	-	7,143	-	-	7,143
Balance at December 31, 2016	26,842	111,950	124,559	(27,882)	235,469
Net income	-	-	32,843	-	32,843
Changes in cumulative translation adjustment	-	-	-	11,345	11,345
Adjustments related to postretirement benefits, net of tax	-	-	-	(1,248)	(1,248)
Changes in unrealized gains and losses on investments, net of tax	-	-	-	(2)	(2)
Cash dividends - \$0.24 per share	-	-	(6,676)	-	(6,676)
Exercise of stock options	1,164	11,617	-	-	12,781

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Shares issued under ESPP	99	1,140	-	-	1,239
Shares issued for restricted stock units vested	595	(595)	-	-	-
Repurchase and retirement of stock	(211)	(3,456)	-	-	(3,667)
Share-based compensation expense	-	7,007	-	-	7,007
Balance at December 30, 2017	\$ 28,489	\$ 127,663	\$ 150,726	\$ (17,787)	\$ 289,091

(a) Cumulative effect of accounting change relates to our adoption of ASU 2016-09. Please refer to Note 1 of the Consolidated Financial Statements for further detail on the adoption of this accounting standard.

The accompanying notes are an integral part of these statements.

COHU, INC.
CONSOLIDATED
STATEMENTS
OF CASH
FLOWS

(in thousands)

	Years ended		
	December 30, 2017	December 31, 2016	December 26, 2015
Cash flows from operating activities:			
Net income	\$32,843	\$3,039	\$250
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss on disposal of microwave equipment segment	278	221	3,573
Gain on sale of facility	-	-	(3,198)
Operating cash flows of discontinued operations	-	-	(1,039)
Depreciation and amortization	9,195	10,412	11,273
Share-based compensation expense	7,007	7,143	6,755
Amortization of inventory step-up	1,404	-	-
Accrued retiree benefits	322	672	2,185
Deferred income taxes	(3,791)	(1,065)	222
Adjustment to contingent consideration liability	1,423	-	-
Changes in other assets	1,501	415	(326)
(Gain) loss on disposal and impairment of fixed assets	(42)	31	311
Changes in accrued liabilities	979	162	127
Changes in current assets and liabilities, excluding effects from acquisitions and divestitures:			
Accounts receivable	(3,259)	(4,617)	8,970
Inventories	(12,196)	4,608	(5,743)
Accrued compensation, warranty and other liabilities	937	(1,544)	(3,740)
Accounts payable	4,157	5,678	3,376
Deferred profit	(442)	3,309	(3,108)
Other current assets	952	(1,959)	2,420
Income taxes payable	(1,518)	(1,957)	(828)
Net cash provided by operating activities	39,750	24,548	21,480
Cash flows from investing activities, excluding effects from acquisitions and divestitures:			
Sales and maturities of short-term investments	47,671	20,230	155
Purchases of short-term investments	(37,010)	(50,568)	(656)
Payment for purchase of Kita, net of cash received	(11,716)	-	-
Purchases of property, plant and equipment	(6,093)	(3,452)	(6,586)
Net cash received from disposition of business segment	-	-	4,881
Net cash received from sale of facility and assets	104	874	33,314
Investing cash flows of discontinued operations	-	-	(74)
Net cash provided by (used in) investing activities	(7,044)	(32,916)	31,034
Cash flows from financing activities:			
Cash dividends paid	(6,577)	(6,351)	(6,215)

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Repayments of long-term debt	(1,631)	-	-
Issuance (repurchases) of common stock, net	10,353	(356)	1,233
Net cash provided by (used in) financing activities	2,145	(6,707)	(4,982)
Effect of exchange rate changes on cash and cash equivalents	3,390	(4,250)	(3,047)
Net increase (decrease) in cash and cash equivalents	38,241	(19,325)	44,485
Cash and cash equivalents at beginning of year	96,045	115,370	70,885
Cash and cash equivalents at end of year	\$134,286	\$96,045	\$115,370
Supplemental disclosure of cash flow information:			
Cash paid (refunded) during the year for income taxes	\$7,094	\$6,808	\$(253)
Dividends declared but not yet paid	\$1,705	\$1,606	\$1,573
Fixed asset additions included in accounts payable	\$260	\$445	\$-
Inventory capitalized as capital assets	\$190	\$201	\$315
Capitalized facility under build-to-suit lease	\$-	\$-	\$682

The accompanying notes are an integral part of these statements.

COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

Basis of Presentation – Cohu, Inc. (“Cohu”, “we”, “our” and “us”), through our wholly owned subsidiaries, is a provider of semiconductor test equipment. Our Consolidated Financial Statements include the accounts of Cohu and our wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Our fiscal years are based on a 52- or 53-week period ending on the last Saturday in *December*. Our current fiscal year which ended on *December 30, 2017*, consisted of 52 weeks. Our fiscal years ended on *December 31, 2016*, and *December 26, 2015*, consisted of 53 weeks and 52 weeks, respectively.

Discontinued Operations – On *June 10, 2015*, we sold our mobile microwave communications equipment business, Broadcast Microwave Services, Inc. (“BMS”). See Note 11, “Discontinued Operations” for additional information. Unless otherwise indicated, all amounts herein relate to continuing operations.

Income (Loss) Per Share – Basic income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the reporting period. Diluted income (loss) per share includes the dilutive effect of common shares potentially issuable upon the exercise of stock options, vesting of outstanding restricted stock and performance stock units and issuance of stock under our employee stock purchase plan using the treasury stock method. In loss periods, potentially dilutive securities are excluded from the per share computations due to their anti-dilutive effect. For purposes of computing diluted income (loss) per share, stock options with exercise prices that exceed the average fair market value of our common stock for the period are excluded. For the years ended *December 30, 2017*, *December 31, 2016*, and *December 26, 2015*, approximately 77,000, 697,000 and 875,000 shares of our common stock were excluded from the computation, respectively.

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

<i>(in thousands)</i>	2017	2016	2015
Weighted average common shares outstanding	27,836	26,659	26,057
Effect of dilutive stock options and restricted stock units	1,080	821	731
	28,916	27,480	26,788

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

Cash, Cash Equivalents and Short-term Investments – Highly liquid investments with insignificant interest rate risk and original maturities of *three* months or less are classified as cash and cash equivalents. Investments with maturities greater than *three* months are classified as short-term investments. All of our short-term investments are classified as available-for-sale and are reported at fair value, with any unrealized gains and losses, net of tax, recorded in the statement of comprehensive income (loss). We manage our cash equivalents and short-term investments as a single portfolio of highly marketable securities. We have the ability and intent, if necessary, to liquidate any of our investments in order to meet the liquidity needs of our current operations during the next *12* months. Accordingly, investments with contractual maturities greater than *one* year have been classified as current assets in the accompanying consolidated balance sheets.

Fair Value of Financial Instruments – The carrying amounts of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, approximate fair value due to the short maturities of these financial instruments.

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.

Trade accounts receivable are presented net of allowance for doubtful accounts of \$0.2 million at *December 30, 2017*, and \$0.1 million at *December 31, 2016*. Our customers primarily include semiconductor manufacturers and semiconductor test subcontractors located throughout many areas of the world. While we believe that our allowance for doubtful accounts is adequate and represents our best estimate of potential loss exposure at *December 30, 2017*, we will continue to monitor customer liquidity and other economic conditions, which *may* result in changes to our estimates regarding collectability.

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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 market 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 market values are below our costs. Charges to cost of sales for excess and obsolete inventories totaled \$1.1 million in both 2017 and 2016 and were \$2.4 million 2015.

Property, Plant and Equipment – Depreciation and amortization of property, plant and equipment 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*):

	December 30, 2017	December 31, 2016
Land and land improvements	\$ 8,017	\$ 4,079
Buildings and building improvements	13,779	7,967
Machinery and equipment	45,333	35,157
	67,129	47,203
Less accumulated depreciation and amortization	(32,957)	(28,969)
Property, plant and equipment, net	\$ 34,172	\$ 18,234

Depreciation expense was \$5.0 million in 2017, \$3.5 million in 2016 and \$4.2 million 2015.

Segment Information – We applied the provisions of ASC Topic 280, *Segment Reporting*, (“ASC 280”), which sets forth a management approach to segment reporting and establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products, major customers and the geographies in which the entity holds material assets and reports revenue. An operating segment is defined as a component that engages in business activities whose operating results are reviewed by the chief operating decision maker and for which discrete financial information is available. Based on the provisions of ASC 280, we have determined that our identified operating segments, which are Digital Test Handlers (DTH), Analog Test Handlers

(ATH) and Integrated Test Solutions (ITS), 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 equipment.

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

We conduct our annual impairment test as of *October 1st* of each year, and determined there was *no* impairment as of *October 1, 2017* as we determined that 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. As of *December 30, 2017*, we do *not* believe there have been any events or circumstances that would require us to perform an interim goodwill impairment review. In the event we determine that an interim goodwill impairment review is required, in a future period, the review *may* result in an impairment charge, which would have a negative impact on our results of operations.

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

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.

Income Taxes – We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances and information available at the reporting dates. For those tax positions where it is more-likely-than-*not* that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50 percent likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is *not* more-likely-than-*not* that a tax benefit will be sustained, *no* tax benefit has been recognized in the financial statements. Where applicable, associated interest and penalties have also been recognized and recorded, net of federal and state tax benefits, in income tax expense.

The U.S. Tax Cuts and Jobs Act ("Tax Act") was enacted on *December 22, 2017*. Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we have made reasonable estimates of the effects and recorded provisional amounts in our financial statements for the year ended *December 30, 2017* as provided for in SEC Staff Accounting Bulletin *No. 118* ("SAB 118"). As we collect and prepare necessary data, and interpret any additional guidance issued by the U.S. Treasury Department, the IRS or other standard-setting bodies, we *may* make adjustments to the provisional amounts. Those adjustments *may* materially impact the provision for income taxes and the effective tax rate in the period in which the adjustments are made. The accounting for the tax effects of the enactment of the Tax Act will be completed in *2018*.

Contingencies and Litigation – We assess the probability of adverse judgments in connection with current and threatened litigation. We would accrue the cost of an adverse judgment if, in our estimation, the adverse outcome is probable and we can reasonably estimate the ultimate cost.

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 there is persuasive evidence of an arrangement, title and risk of loss have passed, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to our customers upon shipment. In circumstances where either title or risk of loss pass upon destination or acceptance, we defer revenue recognition until such events occur.

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Revenue for established products that have previously satisfied a customer's acceptance requirements and provide for full payment tied to shipment is generally recognized upon shipment and passage of title. In certain instances, customer payment terms *may* provide that a minority portion (e.g. up to 20%) of the equipment purchase price be paid only upon customer acceptance. In those situations, the majority portion (e.g. 80%) of revenue where the contingent payment is tied to shipment and the entire product cost of sale are recognized upon shipment and passage of title and the minority portion of the purchase price related to customer acceptance is deferred and recognized upon receipt of customer acceptance. 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 is deferred until customer acceptance has been received. Our post-shipment obligations typically include installation and standard warranties. The estimated fair value of installation related revenue is recognized in the period the installation is performed. Service revenue is recognized ratably over the period of the related contract or upon completion of the services if they are short-term in nature. Spares and kit revenue is generally recognized upon shipment.

Certain of our equipment sales are accounted for as multiple-element arrangements. A multiple-element arrangement is a transaction which *may* involve the delivery or performance of multiple products, services, or rights to use assets, and performance *may* occur at different points in time or over different periods of time. For arrangements containing multiple elements, the revenue relating to the undelivered elements is deferred using the relative selling price method utilizing estimated sales prices until delivery of the deferred elements. We limit the amount of revenue recognition for delivered elements to the amount that is *not* contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or adjustment.

On shipments where sales are not recognized, gross profit is generally recorded as deferred profit in our consolidated balance sheet representing the difference between the receivable recorded and the inventory shipped. In certain instances where customer payments are received prior to product shipment, the customer's payments are recorded as customer advances. At December 30, 2017, we had total deferred revenue of approximately \$10.4 million and total deferred profit of \$7.4 million. Deferred profit expected to be recognized after one year, totaling \$0.8 million at December 30, 2017, is included in noncurrent other accrued liabilities in our consolidated balance sheet. At December 31, 2016, we had total deferred revenue of approximately \$9.3 million and deferred profit of \$6.9 million.

On December 31, 2017, the first day of our fiscal 2018, we will adopt ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), which amends the existing accounting standards for revenue recognition. For additional information on the impact this new standard will have on our revenue recognition in the future see recently issued accounting pronouncements below.

Advertising Costs – Advertising costs are expensed as incurred and were *not* material for all periods presented.

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

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 year ended *December 30, 2017*, we recognized foreign exchange losses totaling \$3.0 million that are included in our consolidated statement of income. During the years ended *December 31, 2016*, and *December 26, 2015*, we recognized approximately \$2.6 million and \$1.4 million, respectively, of foreign exchange gains.

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.

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Accumulated Other Comprehensive Loss – Our accumulated other comprehensive loss totaled approximately \$17.8 million at *December 30, 2017*, and \$27.9 million at *December 31, 2016*, and was attributed to, net of income taxes where applicable: foreign currency adjustments resulting from the translation of certain accounts into U.S. Dollars, unrealized losses and gains on investments and adjustments to accumulated postretirement benefit obligations. The U.S. Dollar weakened relative to certain foreign currencies in countries where we have operations as of *December 30, 2017*, compared to *December 31, 2016*. Consequently, our accumulated other comprehensive loss decreased by \$11.3 million as a result of foreign currency translation during 2017. In the previous year, strengthening of the U.S. Dollar led to an increase in our accumulated other comprehensive loss of \$5.8 million. Additional information related to accumulated other comprehensive loss, on an after-tax basis is included in Note 10.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements – In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). While the effective date of ASU 2016-09 is for fiscal years beginning after *December 15, 2016*, earlier adoption is permitted and we adopted the amendments in ASU 2016-09 during the *fourth* quarter of fiscal 2016. This standard simplifies or clarifies several aspects of the accounting for equity-based payment awards, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Certain of these changes are required to be applied retrospectively, while other changes are required to be applied prospectively. We elected to eliminate the use of an estimated forfeiture rate and recognize actual forfeitures as they occur. We adopted this amendment on a modified retrospective basis and, as a result, we recorded a \$0.2 million cumulative effect adjustment to retained earnings at *December 27, 2015*, the *first* day of our fiscal 2016. We excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of our diluted earnings per share for the year ended *December 31, 2016*. The effect of this change on our diluted earnings per share was *not* significant.

In July 2015, the FASB issued ASU 2015-11, *Accounting for Inventory* (ASU 2015-11), which requires entities to measure most inventory at lower of cost or net realizable value. ASU 2015-11 defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. ASU 2015-11 is effective prospectively for interim and annual periods beginning after December 15, 2016. We adopted the amendments to ASC 2015-11 on January 1, 2017. The adoption of ASC 2015-11 did not have material impact on our financial statements.

Recently Issued Accounting Pronouncements – In March 2017, the FASB issued ASU No. 2017-07 *Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which provides additional guidance on the presentation of net periodic pension and postretirement benefit costs in the income statement and on the components eligible for capitalization. The amendments in this guidance require that an employer report the service cost component of the net periodic benefit costs in the same income statement line item as other compensation costs arising from services rendered by employees during the period. The non-service-cost components of net periodic benefit costs are to be presented in the income statement separately from the service cost components and outside a subtotal of income from operations. The guidance also allows for the capitalization of the service cost components, when applicable (i.e., as a cost of internally manufactured inventory or a self-constructed asset). The guidance is effective for annual periods beginning after *December 15, 2017*, including interim periods within those annual periods; early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have *not* been issued or made available for issuance. The amendments in this guidance are to be applied retrospectively. We are currently assessing the impact this guidance will have on our consolidated financial statements.

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In *January 2017*, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*. It eliminates Step 2 from the goodwill impairment test and requires an entity to recognize an impairment charge for the amount by which the carrying amount of goodwill exceeds the reporting unit's fair value, *not* to exceed the carrying amount of goodwill. This guidance is effective for annual and any interim impairment tests in fiscal years beginning after *December 15, 2019*. We do *not* expect this guidance to have any impact on our consolidated financial statements.

In *January 2017*, the FASB issued ASU No. 2017-01, *Clarifying the Definition of a Business*. It revises the definition of a business and provides a framework to evaluate when an input and a substantive process are present in an acquisition to be considered a business. This guidance is effective for annual periods beginning after *December 15, 2017*. We do *not* expect this guidance to have any impact on our consolidated financial statements.

In *November 2016*, the FASB issued ASU No. 2016-18, *Restricted Cash*. It requires that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after *December 15, 2017*. We do *not* expect this guidance to have a material impact on our consolidated financial statements.

In *August 2016*, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. It provides guidance on *eight* specific cash flow issues with the objective of reducing the existing diversity in practice in how they are classified in the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after *December 15, 2017*. Early adoption is permitted, provided that all of the amendments are adopted in the same period. We do *not* expect this guidance to have a material impact on our consolidated financial statements.

In *February 2016*, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under this guidance, lessees will be required to recognize a right-of-use asset and a lease liability for all operating leases defined under previous GAAP. This guidance is effective for interim and annual reporting periods beginning after *December 15, 2018*. The new guidance must be adopted using a modified retrospective transition, and provides for certain practical expedients. We are still completing our analysis on the impact this guidance will have on our consolidated financial statements and related disclosures, but recognizing the lease liabilities and related right-of-use assets will impact our balance sheet.

In *May 2014*, the FASB issued Accounting Standards Update *No. 2014-09, Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), which amends the existing accounting standards for revenue recognition. In *August 2015*, the FASB issued ASU *No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which delays the effective date of ASU 2014-09 by *one* year. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In *March 2016*, the FASB issued Accounting Standards Update *No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* (ASU 2016-08) which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to customers. The new revenue recognition standard will be effective for us in the *first* quarter of *2018*. We will adopt the new standard effective *December 31, 2017*, which is the *first* day of our *2018* fiscal year. The new standard also permits *two* methods of adoption: retrospectively to each prior reporting period presented (the full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method).

We plan on adopting the standard using the modified retrospective method. We have completed our analysis on the impact this guidance will have on our consolidated financial statements and are still in the process of evaluating the impact on our disclosures. Based on our review of our customer agreements, our revenue will continue to be recognized at a point in time, generally upon shipment of products to customers, consistent with our current revenue recognition model. In certain instances, when customer payment terms provide that a minority portion of the equipment purchase price be paid only upon customer acceptance, recognition of revenue *may* occur sooner under the new model. When adopting the new standard, on *December 31, 2017*, approximately *\$1.3* million of revenue that was *not* recognized in fiscal *2017*, because the equipment had *not* been accepted by the customer will be recognized net of *\$0.2* million related tax effect as a cumulative catch-up adjustment to the opening balance of retained earnings as opposed to being recognized as future revenue upon acceptance.

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2. Business Acquisitions

On *January 4, 2017*, we completed the acquisition of all the outstanding stock of Kita Manufacturing Co., LTD. and Kita USA, Inc. (together “Kita”) (the “Acquisition”). Kita, headquartered in Osaka, Japan, and with operations in Attleboro, Massachusetts and Kyoto, Japan, designs, manufactures and sells spring probe contacts used in final test contactors, probe cards, PCB test boards and connectors sold to customers worldwide. The acquisition of Kita was a strategic transaction to expand our total available market, extend our market leadership and broaden our product offerings. In connection with the Acquisition, during the years ended *December 30, 2017*, and *December 31, 2016*, we incurred acquisition related costs, which were expensed to selling, general and administrative, totaling \$0.4 million and \$1.8 million, respectively.

The Acquisition has been accounted for in conformity with FASB ASC 805, Business Combinations (“ASC 805”). The purchase price for Kita was funded primarily by cash reserves and consisted of the following (*in thousands*):

Cash paid to Kita shareholders	\$ 15,000
Fair value of contingent consideration	823
Total purchase price	\$ 15,823

The contingent consideration represents the estimated fair value of future payments totaling up to \$3.0 million that we would be required to make as a result of Kita achieving annual revenue and EBITDA targets in 2017 and 2018 as specified in the purchase agreement for the Acquisition. The fair value of the contingent consideration recognized on the acquisition date and at *December 30, 2017*, was estimated using the Monte Carlo simulation model. Adjustments to the fair value of contingent consideration are reflected in selling, general, and administrative expense in our consolidated statements of income. We have classified the contingent consideration payable as level 3 in the fair value hierarchy. See Note 4 “Financial Instruments Measured at Fair Value” for additional information on the *three-tier* fair value hierarchy.

The 2017 revenue and EBITDA targets were achieved and a payment of \$1.5 million will be made in early 2018. The fair value of the contingent consideration is recorded in our consolidated balance sheets in both other current accrued liabilities and long term other accrued liabilities.

The following table presents the fair value of contingent consideration from the date of acquisition through *December 30, 2017 (in thousands)*:

Fair Value of Consideration Recognized at Acquisition Date	Settlement of Contingent Consideration	Mark-to-Market Adjustments Charged to Expense	Impact of Currency Exchange	Fair Value of Consideration at December 30, 2017
\$ 823	\$ -	\$ 1,423	\$ 7	\$ 2,253

The Acquisition was nontaxable to Cohu and certain of the assets acquired, including goodwill and intangibles, will *not* be deductible for tax purposes. The acquired assets and liabilities of Kita 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 and was allocated to our ITS operating segment.

The table below summarizes the assets acquired and liabilities assumed as of *January 4, 2017 (in thousands)*:

Current assets, including cash received	\$10,491
Property, plant and equipment	12,751
Other assets	2,397
Intangible assets subject to amortization	2,100
Goodwill	2,654
Total assets acquired	30,393
Liabilities assumed	(14,570)
Net assets acquired	\$15,823

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

	Fair Value	Estimated Useful Life (in years)
Developed technology	\$ 700	8
Customer relationships	600	4
Covenant not-to-compete	300	10
Product backlog	100	1
Trade names	400	5
Total intangible assets	\$ 2,100	

Acquired intangible assets reported above are being amortized using the straight-line method over their estimated useful lives.

The value assigned to the developed technology was determined by using the multi-period excess earnings method under the income approach. Developed technology, which comprises products that have reached technological feasibility, includes the products in Kita'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 Kita and its competitors. The estimated cash flows were based on revenues for the developed technology net of operating expenses and net of contributory asset charges. 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 value assigned to customer relationships was determined by using the with and without method under the income approach, which analyzes the difference in discounted cash flows generated with the customer relationships in place compared to the discounted cash flows generated without the customer relationships in place.

The value assigned to the covenant *not-to-compete* was estimated based upon the with and without method of the income approach. Specifically, the present value of the differential of the projected cash flows with and without the covenant in place was measured utilizing the appropriate expected rate of return.

The value assigned to backlog acquired was estimated based upon the contractual nature of the backlog as of the acquisition date, using the income approach to discount back to present value the cash flows attributable to the backlog.

The value assigned to trade names was estimated using the relief-from-royalty method of the income approach. This approach is based on the assumption that in lieu of ownership, a company would be willing to pay a royalty in order to exploit the related benefits of this intangible asset.

Pro forma Information

Kita's results of operations were included in, but *not* material to, Cohu's consolidated statements of income and comprehensive income commencing *January 4, 2017*, and Kita's net sales for the *twelve* months ended *December 30, 2017*, were *\$19.2* million. Prior to the acquisition by Cohu, Kita's unaudited net sales for *twelve* months ended *December 31, 2016*, were *\$16.6* million.

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3. Goodwill and Purchased Intangible Assets

Changes in the carrying value of our goodwill during the years ended *December 30, 2017*, and *December 31, 2016*, were as follows (*in thousands*):

	Total Goodwill
Balance December 26, 2015	\$ 60,264
Impact of currency exchange	(1,415)
Balance December 31, 2016	58,849
Additions	2,654
Impact of currency exchange	4,110
Balance December 30, 2017	\$ 65,613

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

	December 30, 2017		Remaining Useful Life (years)	December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization		Gross Carrying Amount	Accumulated Amortization
Developed technology	\$20,780	\$ 12,623	3.3	\$19,194	\$ 9,597
Customer relationships	7,934	4,838	3.0	6,996	3,644
Trade names	6,185	972	12.2	5,354	468
Covenant not-to-compete	313	31	9.0	-	-
	\$35,212	\$ 18,464		\$31,544	\$ 13,709

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

Amortization expense related to purchased intangible assets was approximately \$4.2 million in 2017, \$6.9 million in 2016 and \$7.0 million in 2015. The decrease in amortization expense in the current year is a result of certain intangible assets that became fully amortized in the prior year. As of *December 30, 2017*, we expect amortization expense in future periods to be as follows: 2018 - \$4.2 million; 2019 - \$4.2 million; 2020 - \$4.1 million; 2021 - \$0.7 million 2022 - \$0.7 million; and thereafter \$2.8 million.

4. 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 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.

Gains and losses on investments are calculated using the specific-identification method and are recognized during the period in which the investment is sold or when an investment experiences an other-than-temporary decline in value. Factors that could indicate an impairment exists include, but are *not* limited to: earnings performance, changes in credit rating or adverse changes in the regulatory or economic environment of the asset. Gross realized gains and losses on sales of short-term investments are included in interest income. Realized gains and losses for the periods presented were *not* significant.

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

	At December 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses ⁽¹⁾	Estimated Fair Value
Corporate debt securities ⁽²⁾	\$ 12,784	\$ 1	\$ 6	\$ 12,779
U.S. treasury securities	7,935	-	4	7,931
Foreign government security	619	-	-	619
	\$ 21,338	\$ 1	\$ 10	\$ 21,329

	At December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Foreign government security	\$ 623	\$ -	\$ -	\$ 623
Corporate debt securities ⁽²⁾	22,513	1	6	22,508
Government-sponsored enterprise securities	8,109	-	1	8,108
Bank certificates of deposit	750	1	-	751
	\$ 31,995	\$ 2	\$ 7	\$ 31,990

As of *December 30, 2017*, the cost and fair value of investments with loss positions were approximately \$13.2 million. As of *December 31, 2016*, the cost and fair value of investments with loss positions were approximately \$26.6 million. We evaluated the nature of these investments, credit worthiness of the issuer and the duration of these impairments to determine if an other-than-temporary decline in fair value had occurred and concluded that these losses were temporary and we have the ability and intent to hold these investments to maturity.

⁽¹⁾ 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 at *December 30, 2017*, were as follows:

(*in thousands*) Amortized Cost Estimated

		Fair
		Value
Due in one year or less	\$ 21,338	\$ 21,329

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.

COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 December 30, 2017 using:			Total estimated fair value
	Level 1	Level 2	Level 3	
Cash	\$100,850	\$-	\$ -	\$100,850
Money market funds	-	22,205	-	22,205
Corporate debt securities	-	22,014	-	22,014
U.S. treasury securities	-	8,431	-	8,431
Government-sponsored enterprise securities	-	1,496	-	1,496
Foreign government security	-	619	-	619
	\$100,850	\$54,765	\$ -	\$155,615

	Fair value measurements at December 31, 2016 using:			Total estimated fair value
	Level 1	Level 2	Level 3	
Cash	\$70,279	\$-	\$ -	\$70,279
Money market funds	-	24,166	-	24,166
Corporate debt securities	-	24,108	-	24,108
Government-sponsored enterprise securities	-	8,108	-	8,108
Foreign government security	-	623	-	623
Bank certificates of deposit	-	751	-	751
	\$70,279	\$57,756	\$ -	\$128,035

5. Income Taxes

Significant components of the provision (benefit) for income taxes for continuing operations are as follows:

<i>(in thousands)</i>	2017	2016	2015
Current:			
U.S. Federal	\$12	\$11	\$5
U.S. State	18	8	28
Foreign	6,005	3,793	1,956
Total current	6,035	3,812	1,989
Deferred:			
U.S. Federal	(3,451)	91	89
U.S. State	(481)	47	49
Foreign	141	(1,203)	84
Total deferred	(3,791)	(1,065)	222
	\$2,244	\$2,747	\$2,211

Income (loss) before income taxes from continuing operations consisted of the following:

<i>(in thousands)</i>	2017	2016	2015
U.S.	\$1,430	\$(13,420)	\$(5,214)
Foreign	33,935	19,427	13,217
Total	\$35,365	\$6,007	\$8,003

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Tax Act was enacted on *December 22, 2017*, and introduces significant changes to U.S. income tax law. Effective in *2018*, the Tax Act reduces the U.S. statutory tax rate from *35%* to *21%* and creates new taxes on certain foreign-sourced earnings and related-party payments, which are referred to as the global intangible low-taxed income tax and the base erosion and anti-abuse tax, respectively. In addition, in *2017* we were subject to a *one-time* transition tax on accumulated foreign subsidiary earnings *not* previously subject to U.S. income tax. The Tax Act also repealed the alternative minimum tax (AMT) effective *January 1, 2018*, and made changes to net operating loss provisions, expensing of certain assets and capitalization of research and development expense with such changes effective for *2018* and later years.

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we have made reasonable estimates of the effects and recorded provisional amounts in our financial statements as of *December 30, 2017*. As we collect and prepare necessary data, and interpret the Tax Act and any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, we *may* make adjustments to the provisional amounts. Those adjustments *may* materially impact our provision for income taxes and effective tax rate in the period in which the adjustments are made. The accounting for the tax effects of the Tax Act will be completed in *2018* in accordance with SAB *118*.

Provisional amounts for the following income tax effects of the Tax Act have been recorded as of *December 30, 2017*, and are subject to change during *2018*.

One-time transition tax

The Tax Act requires us to pay U.S. income taxes on accumulated foreign subsidiary earnings *not* previously subject to U.S. income tax at a rate of *15.5%* to the extent of foreign cash and certain other net current assets and *8%* on the remaining earnings. Foreign tax credits and net operating losses *may* be used to reduce this tax which is referred to as a transition or deemed repatriation tax. We recorded a provisional amount for our *one-time* transition tax liability of *\$16.6* million and used foreign tax credits and net operating losses to fully offset this liability. We have recorded provisional amounts based on estimates of the effects of the Tax Act as the analysis requires significant data from our foreign subsidiaries that is *not* regularly collected or analyzed.

Deferred tax effects

The Tax Act reduces the U.S. statutory tax rate from 35% to 21% for years after 2017. Accordingly, we have remeasured our deferred taxes as of *December 30, 2017* to reflect the reduced rate that will apply in future periods when these deferred taxes are settled or realized. We recognized a deferred tax benefit of \$4.0 million, net of a reduction in the related valuation allowance, to reflect the reduced U.S. tax rate and other effects of the Tax Act including the change in the life of NOL carryforwards from 20 years to indefinite. Although the tax rate reduction is known, we have *not* collected the necessary data to complete our analysis of the effect of the Tax Act on the underlying deferred taxes and as such, the amounts recorded as of *December 30, 2017* are provisional.

Beginning in 2018, the Tax Act provides a 100% deduction for dividends received from 10-percent owned foreign corporations by U.S. corporate shareholders, subject to a one-year holding period. Although dividend income is now exempt from U.S. federal tax in the hands of U.S. corporate shareholders, companies must still apply the guidance of ASC 740-30-25-18 to account for the tax consequences of outside basis differences and other tax impacts of their investments in non-U.S. subsidiaries. Deferred tax liabilities are recognized for taxes payable on the unremitted earnings from foreign operations of our subsidiaries, except where it is our intention to indefinitely reinvest a portion or all of these undistributed earnings.

As we complete our analysis of the Tax Act and incorporate additional guidance that *may* be issued by the U.S. Treasury Department, the IRS or other standard-setting bodies, we *may* identify additional effects *not* reflected as of *December 30, 2017*.

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and tax purposes. Significant components of our deferred tax assets and liabilities were as follows:

<i>(in thousands)</i>	2017	2016
Deferred tax assets:		
Inventory, receivable and warranty reserves	\$3,417	\$5,868
Net operating loss carryforwards	7,467	11,681
Tax credit carryforwards	14,724	13,715
Accrued employee benefits	4,796	5,002
Deferred profit and gain on facility sale	3,617	5,412
Stock-based compensation	1,897	4,189
Acquisition basis differences	1,606	1,334
Other	208	103
Gross deferred tax assets	37,732	47,304
Less valuation allowance	(31,491)	(44,731)
Total deferred tax assets	6,241	2,573
Deferred tax liabilities:		
Depreciation and fixed asset related	120	53
Acquisition basis differences	5,518	7,423
Unremitted earnings of foreign subsidiaries	2,002	-
Other	437	662
Total deferred tax liabilities	8,077	8,138
Net deferred tax liabilities	\$(1,836)	\$(5,565)

Companies are required to assess whether a valuation allowance should be recorded against their deferred tax assets (“DTAs”) based on the consideration of all available evidence, using a “more likely than *not*” realization standard. The *four* sources of taxable income that must be considered in determining whether DTAs will be realized are, (1) future reversals of existing taxable temporary differences (i.e. offset of gross deferred tax assets against gross deferred tax liabilities); (2) taxable income in prior carryback years, if carryback is permitted under the tax law; (3) tax planning strategies and (4) future taxable income exclusive of reversing temporary differences and carryforwards.

In assessing whether a valuation allowance is required, significant weight is to be given to evidence that can be objectively verified. We have evaluated our DTAs each reporting period, including an assessment of our cumulative income or loss over the prior *three*-year period and future periods, to determine if a valuation allowance was required. A significant negative factor in our assessment was Cohu's *three*-year cumulative U.S. loss history at the end of various fiscal periods including 2017.

As a result of our cumulative, *three-year* U.S. GAAP pretax loss from continuing operations at the end of *2017* we were unable to conclude at *December 30, 2017*, that it was “more likely than *not*” that our U.S. DTAs would be realized. We will evaluate the realizability of our DTAs at the end of each quarterly reporting period in *2018* and should circumstances change it is possible the remaining valuation allowance, or a portion thereof, will be reversed in a future period.

Our valuation allowance on our DTAs at *December 30, 2017*, and *December 31, 2016*, was approximately \$31.5 million and \$44.7 million, respectively. The remaining gross DTAs for which a valuation allowance was *not* recorded are realizable primarily through future reversals of existing taxable temporary differences.

As the realization of DTAs is determined by tax jurisdiction, the deferred tax liabilities recorded as part of the *2008* acquisition of Rasco, a German corporation, the fiscal *2013* acquisition of Ismeca, a Swiss Corporation, and the fiscal *2017* acquisition of Kita Japan, a Japanese company were *not* a source of taxable income in assessing the realization of our DTAs in the U.S.

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The reconciliation of income tax computed at the U.S. federal statutory tax rate to the provision for income taxes for continuing operations is as follows:

<i>(in thousands)</i>	2017	2016	2015
Tax provision at U.S. 35% statutory rate	\$12,378	\$2,102	\$2,801
Impact of Tax Act, before reduction in valuation allowance	12,397	-	-
State income taxes, net of federal tax benefit	56	168	(152)
Settlements, adjustments and releases from statute expirations	(1,731)	(312)	(104)
Federal tax credits	(371)	(183)	(221)
Stock-based compensation	(2,801)	168	156
Change in valuation allowance	(13,484)	2,430	2,181
Non-deductible transaction related costs	577	463	-
Foreign income taxed at different rates	(4,866)	(2,378)	(2,601)
Other, net	89	289	151
	\$2,244	\$2,747	\$2,211

Our effective tax rate for each of the years presented was impacted by earnings realized in foreign jurisdictions with statutory tax rates lower than the U.S. federal statutory tax rate. Included in 2017 foreign income taxed at different rates is \$2.0 million of foreign withholding tax that we accrued in the event we repatriate funds from certain of our foreign subsidiaries. Beginning in 2018, earnings realized in foreign jurisdictions will be subject to U.S. tax in accordance with the Tax Act. State income taxes, net of federal benefit, have been reduced by research tax credits totaling approximately \$0.2 million, \$0.2 million and \$0.4 million in 2017, 2016 and 2015, respectively.

At December 30, 2017, we had federal and state net operating loss carryforwards of approximately \$31.2 million and \$19.0 million, respectively, that expire in various tax years beginning in 2018 through 2036 or have no expiration date. We also have federal and state tax credit carryforwards at December 30, 2017 of approximately \$7.6 million and \$14.1 million, respectively, certain of which expire in various tax years beginning in 2018 through 2037 or have no expiration date. The federal and state loss and credit carryforwards are subject to annual limitations under Sections 382 and 383 of the Internal Revenue Code and applicable state tax law. We believe the state tax credit is not likely to be realized.

We have certain tax holidays with respect to our operations in Malaysia and the Philippines. These holidays require compliance with certain conditions and expire at various dates through 2027. The impact of these holidays was an increase in net income of approximately \$2.8 million or \$0.10 per share in 2017, \$1.0 million, or \$0.04 per share, in 2016 and \$0.8 million, or \$0.03 per share, in fiscal 2015.

A reconciliation of our gross unrecognized tax benefits, excluding accrued interest and penalties, is as follows:

<i>(in thousands)</i>	2017	2016	2015
Balance at beginning of year	\$10,075	\$10,444	\$10,841
Gross additions for tax positions of current year	200	125	215
Gross additions for tax positions of prior years	958	58	248
Reductions due to lapse of the statute of limitations	(1,148)	(446)	(243)
Foreign exchange rate impact	236	(106)	(617)
Balance at end of year	\$10,321	\$10,075	\$10,444

The gross additions for tax positions of prior years is primarily related to the Kita acquisition.

If the unrecognized tax benefits at *December 30, 2017* are ultimately recognized, approximately \$4.3 million (\$5.2 million at *December 31, 2016*) would result in a reduction in our income tax expense and effective tax rate. It is reasonably possible that our gross unrecognized tax benefits as of *December 30, 2017*, could decrease in *2018* by approximately \$0.6 million as a result of the expiration of certain statutes of limitations.

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We recognize interest and penalties related to unrecognized tax benefits in income tax expense. Cohu had approximately \$1.1 million and \$1.2 million accrued for the payment of interest and penalties at *December 30, 2017*, and *December 31, 2016*, respectively. Interest expense, net of accrued interest reversed, was \$(0.3) million in 2017, not significant in 2016 and \$0.1 million in 2015.

Our U.S. federal and state income tax returns for years after 2013 and 2012, respectively, remain open to examination, subject to the statute of limitations. Net operating loss and credit carryforwards arising prior to these years are also open to examination if and when utilized. The statute of limitations for the assessment and collection of income taxes related to our foreign tax returns varies by country. In the foreign countries where we have significant operations these time periods generally range from *four* to *ten* years after the year for which the tax return is due or the tax is assessed.

6. Employee Benefit Plans

Defined Contribution Retirement Plans – We maintain a defined contribution 401(k) retirement savings plan covering all salaried and hourly U.S. employees. Participation is voluntary and participants’ contributions are based on their eligible compensation. We match contributions of participants at 50% up to 6% of salary contributed, up to various statutory limits. In both 2017 and 2016 we made matching contributions to the plan of \$0.6 million. In 2015 we made contributions to the plan of \$0.7 million.

Defined Benefit Retirement Plans – As a result of the acquisition of Ismeca effective *December 31, 2012*, we took over the Ismeca Europe Semiconductor BVG Pension Plan in Switzerland (“the Swiss Plan”) and the following discussion only relates to the Swiss Plan.

Net periodic benefit cost of the Swiss Plan was as follows:

<i>(in thousands)</i>	2017	2016	2015
Service cost	\$907	\$868	\$856
Interest cost	198	245	311
Expected return on assets	(119)	(147)	(193)

Settlements	-	-	235
Net periodic costs	\$986	\$966	\$1,209

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The following table sets forth the projected benefit obligation, the fair value of plan assets, the funded status and the liability we have recorded in our consolidated balance sheet related to the Swiss Plan:

<i>(in thousands)</i>	2017	2016
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$(27,499)	\$(25,483)
Service cost	(907)	(868)
Interest cost	(198)	(245)
Actuarial loss	(628)	(796)
Participant contributions	(789)	(719)
Benefits paid	743	(214)
Foreign currency exchange adjustment	(1,234)	826
Benefit obligation at end of year	(30,512)	(27,499)
Change in plan assets:		
Fair value of plan assets at beginning of year	16,077	14,716
Return on assets, net of actuarial loss	112	189
Employer contributions	789	719
Participant contributions	789	719
Benefits paid	(743)	214
Foreign currency exchange adjustment	722	(480)
Fair value of plan assets at end of year	17,746	16,077
Net liability at end of year	\$(12,766)	\$(11,422)

At *December 30, 2017*, and *December 31, 2016*, the Swiss Plan's net liability is included in noncurrent accrued retirement benefits. Amounts recognized in accumulated other comprehensive income net of tax related to the Swiss Plan consisted of an unrecognized net actuarial loss totaling \$3.1 million at *December 30, 2017*, and \$2.4 million at *December 31, 2016*.

Weighted-average actuarial assumptions used to determine the projected benefit obligation under the Swiss Plan are as follows:

	2017	2016
Discount rate	0.7%	0.7%
Compensation increase	1.8%	1.5%

Weighted-average assumptions used to determine net periodic benefit cost of the Swiss Plan are as follows:

	2017	2016	2015
Discount rate	0.7%	1.0%	1.3%
Rate of return on Assets	0.7%	1.0%	1.3%
Compensation increase	1.5%	1.8%	1.8%

During 2018 employer and employee contributions to the Swiss Plan are expected to total \$0.8 million. Estimated benefit payments are expected to be as follows: 2018 - \$0.8 million; 2019 - \$0.9 million; 2020 - \$0.9 million; 2021 - \$1.1 million; 2022 - \$0.9 million; and \$6.0 million thereafter through 2027.

As is customary with Swiss pension plans, the assets of the plan are invested in a collective fund with multiple employers. We have *no* investment authority over the assets of the plan that are held and invested by a Swiss insurance company. Investment holdings are made with respect to Swiss laws and target allocations for plan assets are 68% debt securities and cash, 15% real estate investments, 9% alternative investments and 8% equity securities. The valuation of the collective fund assets as a whole is a Level 3 measurement; however the individual investments of the fund are generally Level 1 (equity securities), Level 2 (fixed income) and Level 3 (real estate and alternative) investments. We determine the fair value of the plan assets based on information provided by the collective fund, through review of the collective fund's annual financial statements. See Note 4, "Financial Instruments Measured at Fair Value" for additional information on the *three-tier* fair value hierarchy.

We maintain other defined benefit plans for employees located outside the U.S. for which the majority of the obligations and net periodic benefit cost were determined to be immaterial for all periods presented.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Retiree Medical Benefits – We provide post-retirement health benefits to certain executives and directors under a noncontributory plan. The net periodic benefit cost was \$0.1 million in 2017, 2016, and 2015. We fund benefits as costs are incurred and as a result there are *no* plan assets.

The weighted average discount rate used in determining the accumulated post-retirement benefit obligation was 3.4% in 2017, 3.9% in 2016 and 4.2% in 2015. The annual rates of increase of the cost of health benefits was assumed to be 9.2% in 2018. This rate was then assumed to decrease 0.5% per year to 4.5% in 2027 and remain level thereafter. A one percent increase (decrease) in health care cost trend rates would increase (decrease) the 2017 net periodic benefit cost by approximately \$13,000 (\$11,000) and the accumulated post-retirement benefit obligation as of December 30, 2017, by approximately \$419,000 (\$354,000).

Contributions to the post-retirement health benefit plan are expected to total \$0.1 million in 2018. Estimated benefit payments are expected to be as follows: 2018 - \$0.1 million; 2019 - \$0.1 million; 2020 - \$0.1 million; 2021 - \$0.1 million; 2022 - \$0.2 million and \$0.9 million thereafter through 2027.

The following table sets forth the post-retirement benefit obligation, funded status and the liability we have recorded in our consolidated balance sheets:

<i>(in thousands)</i>	2017	2016
Accumulated benefit obligation at beginning of year	\$2,490	\$2,649
Interest cost	95	109
Actuarial (gain) loss	677	(185)
Benefits paid	(114)	(83)
Accumulated benefit obligation at end of year	3,148	2,490
Plan assets at end of year	-	-
Funded status	\$(3,148)	\$(2,490)

Deferred Compensation – The Cohu, Inc. Deferred Compensation Plan allows certain of our officers to defer a portion of their current compensation. We have purchased life insurance policies on the participants with Cohu as the named beneficiary. Participant contributions, distributions and investment earnings and losses are accumulated in a separate account for each participant. At December 30, 2017, the payroll liability to participants, included in accrued compensation and benefits in the consolidated balance sheet, was approximately \$2.3 million and the cash surrender value of the related life insurance policies included in other current assets was approximately \$2.2 million. At

December 31, 2016, the liability totaled \$2.4 million and the corresponding assets were \$2.2 million.

Employee Stock Purchase Plan – The Cohu, Inc. 1997 Employee Stock Purchase Plan (“the Plan”) provides for the issuance of a maximum of 2,650,000 shares of our common stock. Under the Plan, eligible employees *may* purchase shares of common stock through payroll deductions. The price paid for the common stock is equal to 85% of the fair market value of our common stock on specified dates. During the last *three* years we issued shares under the Plan as follows: 2017 - 99,144; 2016 - 110,579 and 2015 - 122,528. At *December 30, 2017*, there were 601,340 shares reserved for issuance under the Plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Options – At *December 30, 2017*, a total of *1,503,078* shares were available for future equity grants under the Cohu, Inc. 2005 Equity Incentive Plan (“the 2005 Plan”). Under the 2005 Plan stock options *may* be granted to employees, consultants and outside directors to purchase a fixed number of shares of our common stock at prices *not* less than *100%* of the fair market value at the date of grant. Options generally vest and become exercisable after *one* year or in *four* annual increments beginning *one* year after the grant date and expire *ten* years from the grant date. We have historically issued new shares of Cohu common stock upon share option exercise.

Stock option activity under our share-based compensation plans was as follows:

	2017		2016		2015	
	Shares	Wt. Avg. Ex. Price	Shares	Wt. Avg. Ex. Price	Shares	Wt. Avg. Ex. Price
<i>(in thousands, except per share data)</i> Outstanding, beginning of year	1,641	\$10.79	1,965	\$11.25	2,435	\$11.67
Granted	-	N/A	-	N/A	10	\$10.98
Exercised	(1,164)	\$10.98	(101)	\$7.89	(175)	\$8.65
Cancelled	(5)	\$20.73	(223)	\$16.19	(305)	\$16.07
Outstanding, end of year	472	\$10.20	1,641	\$10.79	1,965	\$11.25
Options exercisable at year end	469	\$10.20	1,537	\$10.85	1,673	\$11.47

The aggregate intrinsic value of options exercised was \$10.1 million in 2017, \$0.5 million in 2016, and \$0.7 million in 2015. At *December 30, 2017*, the aggregate intrinsic value of options outstanding, vested and expected to vest and exercisable was \$5.5 million.

Information about stock options outstanding at *December 30, 2017* is as follows (*options in thousands*):

Range of	Options Outstanding Approximate Wt. Avg. Number Remaining	Options Exercisable Number
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Exercise Prices	Outstanding	Vesting (Years)	Wt.	Wt.	Wt.
			Avg. Ex. Price	Exercisable	Avg. Ex. Price
\$7.32 - \$9.44	248	4.7	\$9.16	248	\$9.16
\$9.45 - \$10.54	26	4.8	\$10.41	26	\$10.41
\$10.55 - \$17.67	198	4.2	\$11.48	195	\$11.49
	472	4.5	\$10.20	469	\$10.20

Restricted Stock Units – Under our equity incentive plans, restricted stock units *may* be granted to employees, consultants and outside directors. Restricted stock units vest over a *one*-year, *two*-year or a *four*-year period from the date of grant. Prior to vesting, restricted stock units do *not* have dividend equivalent rights, do *not* have voting rights and the shares underlying the restricted stock units are *not* considered issued and outstanding. New shares of our common stock will be issued on the date the restricted stock units vest net of the 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 *December 30, 2017*.

Restricted stock unit activity under our share-based compensation plans was as follows:

	2017		2016		2015	
	Units	Wt. Avg. Fair Value	Units	Wt. Avg. Fair Value	Units	Wt. Avg. Fair Value
(in thousands, except per share data)						
Outstanding, beginning of year	1,083	\$10.50	1,078	\$9.93	1,026	\$9.54
Granted	353	\$15.95	471	\$11.25	482	\$10.54
Released	(409)	\$10.26	(409)	\$9.90	(339)	\$9.63
Cancelled	(46)	\$11.85	(57)	\$10.25	(91)	\$9.82
Outstanding, end of year	981	\$12.50	1,083	\$10.50	1,078	\$9.93

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Equity-Based Performance Stock Units – We grant performance stock units (“PSUs”) to certain senior executives as a part of our long-term equity compensation program. The performance criteria for the PSUs granted in 2017, 2016 and 2015 is based on a combination of the Company’s annualized Total Shareholder Return (“TSR”) for the performance period and the relative performance of the Company’s TSR compared with the annualized TSR of certain peer companies for the performance period. The PSU awards granted in 2014 had a *one*-year performance period after which the number of shares of our common stock earned, if any, was determined, subject to certain adjustments resulting from the performance of our TSR relative to a pre-selected competitor group over the *two*-year period following the date of grant. The number of shares of common stock that will ultimately be issued to settle PSUs granted over the last *four* years is as follows:

Year Granted	Range of Awards	Performance Criteria Period (in years)
2017	25%-200%	3
2016	25%-200%	3
2015	25%-200%	2
2014	0% -150%	2

PSUs granted in 2017 and 2016 vest 100% on the *third* anniversary of their grant and PSUs granted in 2015 and 2014 vest 50% on the *second* and *third* anniversary of their grant, respectively.

We estimated the fair value of the PSUs using a Monte Carlo simulation model on the date of grant. Compensation expense is recognized over the derived service period. New shares of our common stock will be issued on the date the PSUs vest net of the minimum statutory tax withholding requirements to be paid by us on behalf of our employees. As a result, the actual number of shares issued will be fewer than the actual number PSUs outstanding at *December 30, 2017*.

PSU activity under our share-based compensation plans was as follows:

2017	2016	2015
------	------	------

	Units	Wt. Avg. Fair Value	Units	Wt. Avg. Fair Value	Units	Wt. Avg. Fair Value
<i>(in thousands, except per share data)</i>						
Outstanding, beginning of year	403	\$11.04	376	\$10.80	334	\$10.49
Granted	185	\$17.60	222	\$11.38	156	\$10.69
Released	(186)	\$11.35	(172)	\$11.27	(38)	\$9.52
Cancelled	(68)	\$11.94	(23)	\$8.75	(76)	\$9.86
Outstanding, end of year	334	\$14.31	403	\$11.04	376	\$10.80

Share-based Compensation – We estimate the fair value of each share-based award on the grant date using the Black-Scholes and the Monte Carlo simulation valuation models. Option valuation models require the input of highly subjective assumptions and changes in the assumptions used can materially affect the grant date fair value of an award. These assumptions for the Black-Scholes model include the risk-free rate of interest, expected dividend yield, expected volatility, and the expected life of the award. The risk-free rate of interest is based on the U.S. Treasury rates appropriate for the expected term of the award as of the grant date. Expected dividends are based primarily on historical factors related to our common stock. Expected volatility is based on historic weekly stock price observations of our common stock during the period immediately preceding the share-based award grant that is equal in length to the award's expected term. We believe that historical volatility is the best estimate of future volatility. Expected life of the award is based on historical option exercise data. The Monte Carlo simulation model incorporates assumptions for the risk-free interest rate, Cohu and the selected peer group price volatility, the correlation between Cohu and the selected index, and dividend yields. Share-based compensation expense related to restricted stock unit awards is calculated based on the market price of our common stock on the date of grant, reduced by the present value of dividends expected to be paid on our common stock prior to vesting of the restricted stock unit.

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The following weighted average assumptions were used to value share-based awards granted:

<i>Employee Stock Purchase Plan</i>	2017	2016	2015
Dividend yield	1.4%	2.0%	2.2%
Expected volatility	33.3%	31.2%	35.3%
Risk-free interest rate	0.7%	0.3%	0.1%
Expected term (years)	0.5	0.5	0.5
Weighted-average grant date fair value per share	\$4.63	\$2.82	\$2.71

<i>Employee Stock Options</i>	2017 ⁽¹⁾	2016 ⁽¹⁾	2015
Dividend yield	N/A	N/A	2.1%
Expected volatility	N/A	N/A	39.1%
Risk-free interest rate	N/A	N/A	1.6%
Expected term (years)	N/A	N/A	5.9
Weighted-average grant date fair value per share	N/A	N/A	\$3.46

<i>Restricted Stock Units</i>	2017	2016	2015
Dividend yield	1.4%	2.0%	2.1%

(1)
There were *no* stock options granted in 2017 and 2016.

Reported share-based compensation is classified in the Consolidated Financial Statements as follows:

<i>(in thousands)</i>	2017	2016	2015
Cost of sales	\$423	\$398	\$566
Research and development	1,054	1,292	1,092

Selling, general and administrative	5,530	5,453	5,097
Share-based compensation of continuing operations	7,007	7,143	6,755
Discontinued operations	-	-	138
Income tax benefit	(530)	(269)	(249)
Total share-based compensation, net of tax	\$6,477	\$6,874	\$6,644

We elected to early adopt ASU 2016-09 in the *fourth* quarter of 2016, which among other items, provides an accounting policy election to account for forfeitures as they occur, rather than based on an estimate of expected forfeitures. We elected to account for forfeitures as they occur and therefore, share-based compensation expense for the years ended *December 30, 2017*, and *December 31, 2016*, have been calculated based on actual forfeitures in our consolidated statement of income, rather than our previous approach where the expense was net of estimated forfeitures determined at the grant date. The net cumulative effect of this change was recognized as a \$0.2 million increase to paid-in capital and a decrease to retained earnings as of *December 27, 2015*. Share-based compensation expense for the year ended *December 26, 2015*, was recorded net of estimated forfeitures.

At *December 30, 2017*, we had less than \$0.1 million of pre-tax unrecognized compensation cost related to unvested stock options which is expected to be recognized over a weighted-average period of approximately 0.2 years.

At *December 30, 2017*, we had approximately \$10.1 million of pre-tax unrecognized compensation cost related to unvested restricted stock units and performance stock units which is expected to be recognized over a weighted-average period of approximately 2.3 years.

COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Segment and Geographic Information

We applied the provisions of ASC 280, which sets forth a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products, major customers and the geographies in which the entity holds material assets and reports revenue. An operating segment is defined as a component that engages in business activities whose operating results are reviewed by the chief operating decision maker and for which discrete financial information is available. Based on the provisions of ASC 280, we have determined that our identified operating segments, which are Digital Test Handlers (DTH), Analog Test Handlers (ATH) and Integrated Test Solutions (ITS), qualify for aggregation under ASC 280 due to similarities in their customers, their economic characteristics, and the nature of products and services provided and, as a result we report in *one* segment, semiconductor equipment. As a result, the financial information disclosed herein materially represents all of the financial information related to our semiconductor equipment segment.

During the last *three* years, the following customers comprised *10%* or greater of our consolidated net sales:

	2017	2016	2015
Intel	11.2%	17.2%	18.0%
NXP Semiconductors N.V. ⁽¹⁾	15.9%	13.7%	11.4%

*The merger of
NXP
Semiconductors
N.V. and
Freescale
Semiconductor,
Ltd. was*

*(1) completed on
December 7,
2015. Sales to
these customers
have been
combined for all
periods
presented.*

Net sales to customers, attributed to countries based on product shipment destination, were as follows:

<i>(in thousands)</i>	2017	2016	2015
China	\$82,474	\$60,291	\$52,589
Malaysia	80,102	85,956	60,776
United States	38,729	35,204	50,704
Rest of the World	151,399	100,633	105,585
Total, net	\$352,704	\$282,084	\$269,654

Geographic location of our property, plant and equipment and other long-lived assets was as follows:

<i>(in thousands)</i>	2017	2016
<i>Property, plant and equipment:</i>		
Japan	\$12,137	\$-
Germany	7,485	6,674
Philippines	5,808	4,167
Malaysia	4,622	4,067
United States	3,064	2,398
Rest of the World	1,056	928
Total, net	\$34,172	\$18,234

Goodwill and other intangible assets:

Germany	\$30,546	\$26,892
United States	17,242	17,242
Switzerland	15,450	18,264
Malaysia	7,078	6,775
Singapore	6,558	6,558
Japan	4,491	-
Rest of the World	996	953
Total, net	\$82,361	\$76,684

COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Commitments and Contingencies

We lease certain of our facilities and equipment under non-cancelable operating leases. Rental expense was \$3.6 million in 2017, \$4.4 million in 2016, and \$1.8 million in 2015. The increase in rent expense in 2017 and 2016 was a result of the sale lease-back of our headquarters facility on *December 4, 2015*. See Note 13, "Sale-leaseback of Poway Facility" for additional information.

Future minimum lease payments at *December 30, 2017* are as follows:

<i>(in thousands)</i>	2018	2019	2020	2021	2022	Thereafter	Total
Non-cancelable operating leases	\$3,280	\$2,930	\$2,664	\$2,636	\$2,687	\$ 7,264	\$21,461

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, at the present time we do *not* believe that the resolution of the matters described above will have a material adverse effect on our assets, financial position or results of operations.

9. GuaranteesAccrued Warranty

Changes in accrued warranty during the *three-year* period ended *December 30, 2017*, was as follows:

<i>(in thousands)</i>	2017	2016	2015
Beginning balance	\$4,350	\$4,886	\$5,848

Warranty accruals	6,765	6,088	6,747
Warranty payments	(6,316)	(6,624)	(7,709)
Warranty liability assumed	50	-	-
Ending balance	\$4,849	\$4,350	\$4,886

Accrued warranty amounts expected to be incurred after *one* year are included in noncurrent other accrued liabilities in the consolidated balance sheet. These amounts totaled \$0.6 million at both *December 30, 2017*, and *December 31, 2016*.

Revolving Lines of Credit and Term Loans

As a result of the Acquisition, 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 \$6.2 million. At *December 30, 2017*, total borrowings outstanding under the revolving lines of credit were \$3.1 million. As these credit facility agreements renew monthly, they have been included in short-term borrowings in our condensed consolidated balance sheet.

We also assumed term loans from a series of Japanese financial institutions primarily related to the expansion of Kita's facility in Osaka, Japan. The loans are collateralized by the facility and land, carry interest rates ranging from 0.05% to 0.45%, and expire at various dates through 2034. At *December 30, 2017*, the outstanding loan balance was \$5.9 million and \$1.3 million of the outstanding balance is presented as current installments of long-term debt in our consolidated balance sheets. The fair value of the debt approximates the carrying value at *December 30, 2017*.

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

At *December 30, 2017*, future payments for the Kita's revolving credit facilities and term loans total \$9.0 million at *December 30, 2017*, of which approximately \$1.3 million will be due in 2018, \$1.2 million will be due in 2019, \$1.0 million will be due in 2020, \$1.1 million will be due in 2021, \$0.8 million will be due in 2022 and \$3.6 million thereafter.

Our wholly owned Ismeca subsidiary has *one* available line of credit which provide it with borrowings of up to a total of 2.0 million Swiss Francs. At *December 30, 2017*, and *December 31, 2016*, *no* amounts were outstanding under this line of credit.

COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Accumulated Other Comprehensive Loss

Components of other comprehensive loss, on an after-tax basis, were as follows:

<i>(in thousands)</i>	Before Tax amount	Tax (Expense) Benefit	Net of Tax Amount
Year ended December 26, 2015			
Foreign currency translation adjustments	\$(11,000)	\$ -	\$(11,000)
Adjustments related to postretirement benefits	(24)	(34)	(58)
Other comprehensive income (loss)	\$(11,024)	\$ (34)	\$(11,058)
Year ended December 31, 2016			
Foreign currency translation adjustments	\$(5,789)	\$ -	\$(5,789)
Adjustments related to postretirement benefits	(429)	113	(316)
Change in unrealized gain/loss on investments	(5)	-	(5)
Other comprehensive income (loss)	\$(6,223)	\$ 113	\$(6,110)
Year ended December 30, 2017			
Foreign currency translation adjustments	\$11,345	\$ -	\$11,345
Adjustments related to postretirement benefits	(1,369)	121	(1,248)
Change in unrealized gain/loss on investments	(2)	-	(2)
Other comprehensive income (loss)	\$9,974	\$ 121	\$10,095

Components of accumulated other comprehensive loss, net of tax, at the end of each period are as follows:

<i>(in thousands)</i>	2017	2016
Accumulated net currency translation adjustments	\$(13,771)	\$(25,116)
Accumulated net adjustments related to postretirement benefits	(4,009)	(2,761)
Accumulated net unrealized gain/loss on investments	(7)	(5)
Total accumulated other comprehensive loss	\$(17,787)	\$(27,882)

11. Discontinued Operations

In 2015, we sold all of the outstanding stock of BMS for \$4.9 million in cash and up to \$2.5 million of contingent cash consideration. Our decision to sell this non-core business resulted from management's determination that they were *no* longer a strategic fit within our organization.

As part of the divestiture of BMS we recorded a contingent consideration receivable that was been classified as Level 3 in the fair value hierarchy. See Note 4, "Financial Instruments Measured at Fair Value" for additional information on the *three*-tier fair value hierarchy. The contingent consideration represents the estimated fair value of future payments we are due based on BMS achieving annual revenue targets in 2016 and 2017 as specified in the sale agreement. We determined the value of the contingent consideration using a Monte Carlo simulation model with changes to the fair value of the contingent consideration being recognized in discontinued operations. During 2017, BMS failed to meet the necessary revenue targets and the contingent consideration receivable was written-off.

COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	December 30, 2017	December 31, 2016	December 26, 2015
Net sales	\$ -	\$ -	\$ 6,965
Loss from operations	\$ -	\$ -	\$ (1,963)
Loss from sale	(278)	(221)	(3,573)
Loss before taxes	(278)	(221)	(5,536)
Income tax provision	-	-	6
Loss, net of tax	\$ (278)	\$ (221)	\$ (5,542)

12. Related Party Transactions

At *December 30, 2017* certain of our cash and short-term investments were held and managed by BlackRock, Inc. which owns *13.1%* of our outstanding common stock as reported in its Form *13-G* filing made with the Securities and Exchange Commission on *January 23, 2018*.

13. Sale-leaseback of Poway Facility

On *December 4, 2015*, we completed the sale of our headquarters facility located in Poway, California (the “Poway Facility”) for *\$34.1* million. After payment of commissions and other fees associated with the sale we realized net cash proceeds of approximately *\$33.3* million which resulted in a total gain of *\$18.5* million. Concurrent with the closing of the sale, we entered into a lease, with a *ten*-year term through *2025*, that provides for base rent of approximately *\$1.6* million per annum, with *3%* annual adjustments for inflation and a pro rata share of property operating costs. The lease covers approximately *43%* (unaudited) of the Poway Facility. This lease also contains *two five*-year renewal options.

We accounted for this transaction in accordance with ASC subtopic 840-40, *Sale-leaseback transactions*, and recognized a gain on the sale-leaseback totaling \$3.2 million for the year ended *December 26, 2015*. The remaining \$15.3 million portion of the gain *not* recognized at the time of sale was deferred and is being recognized on a straight-line basis over the 10-year lease term in line with the recognition of rental expense related to the lease. During the years ended *December 30, 2017*, and *December 31, 2016*, we amortized \$1.5 million and \$2.0 million of the deferred gain to income, respectively.

COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Quarterly Financial Data (Unaudited)

Quarter		First (a)	Second (a)	Third (a)	Fourth (a) (c)	Year
<i>(in thousands, except per share data)</i>						
Net sales:	2017	\$81,097	\$93,866	\$93,651	\$84,090	\$352,704
	2016	\$65,778	\$76,353	\$69,259	\$70,694	\$282,084
Gross profit:	2017	\$32,256	\$37,130	\$36,909	\$34,423	\$140,718
	2016 ^(b)	\$19,282	\$26,739	\$23,280	\$25,527	\$94,828
Income (loss) from continuing operations	2017	\$6,763	\$10,708	\$8,755	\$6,895	\$33,121
	2016 ^(b)	\$(1,691)	\$2,517	\$128	\$2,306	\$3,260
Net income (loss)	2017	\$6,763	\$10,430	\$8,755	\$6,895	\$32,843
	2016 ^(b)	\$(1,691)	\$2,462	\$179	\$2,089	\$3,039
Income (loss) per share (d):						
Basic:						
Income (loss) from continuing operations	2017	\$0.25	\$0.39	\$0.31	\$0.24	\$1.19
	2016 ^(b)	\$(0.06)	\$0.09	\$0.01	\$0.09	\$0.12
Net income (loss)	2017	\$0.25	\$0.38	\$0.31	\$0.24	\$1.18
	2016 ^(b)	\$(0.06)	\$0.09	\$0.01	\$0.08	\$0.11
Diluted:						
Income (loss) from continuing operations	2017	\$0.24	\$0.37	\$0.30	\$0.23	\$1.15
	2016 ^(b)	\$(0.06)	\$0.09	\$0.01	\$0.08	\$0.12
Net income (loss)	2017	\$0.24	\$0.36	\$0.30	\$0.23	\$1.14
	2016 ^(b)	\$(0.06)	\$0.09	\$0.01	\$0.08	\$0.11

(a) All quarters presented above were comprised of 13 weeks, except for the *fourth* quarter ended *December 31, 2016*, which was comprised of 14 weeks.

As a result of the adoption of ASU 2016-09, in the *fourth* quarter of 2016, certain amounts in the *first three* (b) quarters have been restated as if the new accounting guidance was adopted starting with the *first* day of our 2016 fiscal year. The impact of these restatements was *not* significant.

(c) The *fourth* quarter of 2017 includes impact of Tax Act enacted in *December 2017*.

(d)

The sum of the *four* quarters *may not* agree to the year total due to rounding within a quarter and the inclusion or exclusion of common stock equivalents.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Cohu, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Cohu, Inc. (the Company) as of December 30, 2017, and December 31, 2016, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 30, 2017, and the related notes and the financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 30, 2017, and December 31, 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 30, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 30, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 2, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in

the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1956

San Diego, California

March 2, 2018

Index to Exhibits

15. The following exhibits are filed as part of, or incorporated into, the 2017 Cohu, Inc. Annual Report on Form (b) 10-K:

Exhibit
No. **Description**

- 2.1 Share Purchase Agreement dated November 15, 2016 by and among Cohu, Inc. (and certain of its subsidiaries), Kita Manufacturing Co., LTD. and the Shareholders of Kita Manufacturing Co., LTD. incorporated herein by reference to Exhibit 2.1 from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on January 10, 2017
- 3.1 Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference to Exhibit 3.1(a) from the Cohu, Inc. Form 10-Q (file no. 001-04298) filed with the Securities and Exchange Commission on July 19, 1999
- 3.1(a) Certificate of Amendment of Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference from the Cohu, Inc. Form S-8 (file no. 333-40610) filed June 30, 2000, Exhibit 4.1(a)
- 3.2 Amended and Restated Bylaws of Cohu, Inc. incorporated herein by reference to Exhibit 3.2 from the Cohu, Inc. Current Report on Form 8-K (file no. 000-21875) filed with the Securities and Exchange Commission on December 12, 1996
- 10.1 Amended Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference to Exhibit 10.1 from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on May 13, 2015*
- 10.2 Amended Cohu, Inc. 1997 Employee Stock Purchase Plan, incorporated herein by reference to Exhibit 10.2 from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on May 13, 2015*
- 10.3 Cohu, Inc. Deferred Compensation Plan (as amended and restated) incorporated herein by reference to Exhibit 10.1 from the Cohu, Inc. Current Report on Form 8-K (file no. 001-04298) filed with the Securities and Exchange Commission on December 29, 2008*
- 10.4 Form of employee restricted stock unit agreement for use with restricted stock units granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference to Exhibit 10.1 from the Cohu, Inc. Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 4, 2015*
- 10.5 Form of non-employee director restricted stock unit agreement for use with restricted stock units granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference to Exhibit 10.2 from the Cohu, Inc. Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 4, 2015*
- 10.6 Form of non-employee director restricted stock unit deferral election form for use with restricted stock units granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference to Exhibit 10.3 from the Cohu, Inc. Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on

August 4, 2015*

10.7 Non-employee director fee deferral election form incorporated herein by reference to Exhibit 10.4 from the Cohu, Inc. Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 4, 2015*

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- 10.8 Form of deferred stock agreement for shares granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference to Exhibit 10.5 from the Cohu, Inc. Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 4, 2015*
- 10.9 Form of stock option agreement for use with stock options granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference to Exhibit 10.6 from the Cohu, Inc. Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 4, 2015*
- 10.10 Intel Corporation Purchase Agreement Capital Equipment, Goods and Services, dated April 30, 2012, by and between Delta Design, Inc. and Intel Corporation incorporated herein by reference to Exhibit 99.1 from the Cohu, Inc. Current Report on Form 8-K/A (file no. 001-04298) filed August 1, 2012
- 10.11 Form of Indemnity Agreement, incorporated by reference to Exhibit 10.1 from the Cohu, Inc. Current Report on Form 8-K (file no. 001-04298) filed July 28, 2008*
- 10.12 Cohu, Inc. Retiree Health Benefits Agreement (as amended) incorporated herein by reference to Exhibit 10.2 from the Cohu, Inc. Current Report on Form 8-K (file no. 001-04298) filed with the Securities and Exchange Commission on December 29, 2008*
- 10.13 Cohu, Inc. Change in Control Agreement incorporated herein by reference to Exhibit 10.3 from the Cohu, Inc. Current Report on Form 8-K (file no. 001-04298) filed with the Securities and Exchange Commission on December 29, 2008*
- 10.14 Lease agreement dated December 4, 2015 by and between CT Crosthwaite I, LLC and Cohu, Inc. incorporated herein by reference to Exhibit 10.14 from the Cohu, Inc. Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 23, 2016
- 21 Subsidiaries of Cohu, Inc.
- 23 Consent of Independent Registered Public Accounting Firm
- 31.1 Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 for Luis A. Müller
- 31.2 Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 for Jeffrey D. Jones
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Luis A. Müller
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Jeffrey D. Jones
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* Management contract or compensatory plan or arrangement

Item 16. Form 10-K Summary.

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 2, 2018 By: /s/ Luis
A. Müller
Luis A.
Müller
President and
Chief Executive
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ James A. Donahue	Chairman of the Board,	March 2, 2018
James A. Donahue	Director	
/s/ Luis A. Müller	President and Chief Executive Officer, Director	March 2, 2018
Luis A. Müller	(Principal Executive Officer)	
/s/ Jeffrey D. Jones	Vice President, Finance and CFO	March 2, 2018
Jeffrey D. Jones	(Principal Financial and Accounting Officer)	

COHU, INC.
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Description	Balance at Beginning of Year	Additions (Reductions) Not Charged to Expense	Additions (Reductions) Charged (Credited) to Expense	Deductions/ Write-offs	Balance at End of Year
Allowance for doubtful accounts:					
Year ended December 26, 2015	\$ 179	\$ 1	(1) \$ 19	\$ 128	\$ 71
Year ended December 31, 2016	\$ 71	\$ (4)(1) \$ 13	\$ (1) \$ 81
Year ended December 30, 2017	\$ 81	\$ 204	(3) \$ 6	\$ 61	\$ 230
Reserve for excess and obsolete inventories:					
Year ended December 26, 2015	\$ 27,851	\$ (648)(1) \$ 2,409	\$ 2,959	\$ 26,653
Year ended December 31, 2016	\$ 26,653	\$ 1,789	(2) \$ 1,125	\$ 8,082	\$ 21,485
Year ended December 30, 2017	\$ 21,485	\$ 2,661	(3) \$ 1,148	\$ 4,106	\$ 21,188

All amounts presented above have been restated to exclude the impact of our discontinued operations.

(1) Changes in reserve balances resulting from foreign currency impact.

(2) Changes in reserve balances resulting from foreign currency impact and reclassifications from other reserves.

(3) Changes in reserve balances resulting from foreign currency impact, reclassifications and the acquisition of Kita.