COHU INC
Form 10-K
February 24, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 27, 2014

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

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

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

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $1.00 par value	**The NASDAQ Stock Market LLC**

Preferred Share Purchase Rights, $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 þ

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 þ

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 þ 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 þ 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. þ

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 and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨ Smaller reporting company ¨

(Do not check if a smaller reporting company)

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

The aggregate market value of voting stock held by nonaffiliates of the registrant was approximately $147,000,000 based on the closing stock price as reported by the NASDAQ Stock Market LLC as of June 27, 2014. 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 18, 2015 the Registrant had 25,702,989 shares of its $1.00 par value common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Cohu, Inc. s 2015 Annual Meeting of Stockholders to be held on May 13, 2015, and to be filed pursuant to Regulation 14A within 120 days after registrant s fiscal year ended December 27, 2014, are incorporated by reference into Part III of this Report.

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COHU, INC.

FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 27, 2014

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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 industries. 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 operation 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.

In June 2014, we completed the sale of substantially all the assets of our video camera segment, Cohu Electronics Division (Cohu Electronics). Our decision to sell Cohu Electronics resulted from management s determination that this industry segment was no longer a strategic fit within our organization. As a result of the sale, the operating results of Cohu Electronics have been presented as discontinued operations and all prior period amounts have been reclassified accordingly. Unless otherwise noted all amounts presented are from continuing operations.

Subsequent to the sale of Cohu Electronics, we have two reportable segments, semiconductor equipment and mobile microwave communications systems. Our semiconductor equipment segment, Cohu s Semiconductor Equipment Group (SEG), encompasses Cohu s wholly owned subsidiaries Delta Design, Inc. (Delta), Rasco GmbH (Rasco) and Ismeca Semiconductor Holding SA (Ismeca). Delta develops, manufactures and sells pick-and-place semiconductor test handling equipment and thermal sub-systems to semiconductor manufacturers and test subcontractors throughout the world. Rasco develops, manufactures and sells gravity-feed and test-in-strip semiconductor test handling equipment and micro-electro-mechanical systems (MEMS) test modules used in final test operations by semiconductor manufacturers and test subcontractors. Ismeca, designs, manufactures and sells turret-based test handling and back-end finishing equipment for integrated circuits (IC), light emitting diodes (LED) and discrete components used by semiconductor manufacturers and test subcontractors throughout the world in assembly and packaging of devices.

Our microwave communications systems segment is comprised of our wholly owned subsidiary Broadcast Microwave Services, Inc. (BMS). BMS develops, manufactures and sells mobile microwave communications equipment to government agencies, law enforcement and public safety organizations, unmanned aerial vehicle program contractors, television broadcasters, entertainment companies, professional sports teams and other commercial entities.

Sales by reportable segment, expressed as a percentage of total consolidated net sales, for the last three years were as follows:

	2014	2013	2012
Semiconductor equipment	95%	93%	87%
Microwave communications	5%	7%	13%
	100%	100%	100%

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Additional financial information on our reportable segments for each of the last three years is included in Note 8, Segment and Related Information in Part IV, Item 15(a) of this Form 10-K.

Semiconductor Equipment

We are a worldwide supplier of semiconductor test handling and back-end finishing systems, MEMS test modules, and thermal sub-systems. Our semiconductor equipment companies develop, manufacture, sell and service a broad line of equipment capable of handling a wide range of integrated circuit and LED packages. Test handlers are electromechanical systems used to automate testing of integrated circuits and LEDs in the back-end of the semiconductor manufacturing process. Testing determines the quality and performance of the semiconductor device prior to shipment to customers. Testers are designed to verify the performance of semiconductor devices, such as microprocessors, logic, analog, memory or mixed signal devices. Handlers are automated systems engineered to thermally condition and present for testing the packaged semiconductor devices. The majority of test handlers use either pick-and-place, gravity-feed, turret or test-in-strip technologies. The type of packaged device, test parallelism, thermal requirements and signal interface requirements normally determines the appropriate handling approach.

Pick-and-place handling is the predominant solution for devices with leads on all four sides, such as the quad flat pack, or with balls or pads on the bottom or top of the package, such as ball grid array packages, and quad flat no-lead packages as well as certain low profile devices with leads on two sides, such as the thin small outline package, and wafer-level packages. Pick-and-place handlers use robotic mechanisms to move devices from JEDEC (Joint Electron Device Engineering Council) standard trays and place them in precision transport boats or carriers for processing through the system. After testing, devices are sorted and reloaded into designated trays, based on test results.

Gravity-feed handling is the predominant solution for temperature testing of high performance small outline leaded and non-leaded packages, as well as for large packages with leads on only one or two sides as is common in high power devices. In gravity-feed handlers, devices are unloaded from plastic tubes, metal magazines or a bowl at the top of the machine and flow through the system, from top to bottom, propelled by the force of gravity. After testing, devices are sorted and reloaded into tubes, magazines, bulk or tape for additional process steps or final shipment.

Turret handlers are ideally suited for high-volume and low-mix testing of smaller integrated circuit and LED devices. In turret handlers, devices are unloaded from tubes, a bowl, trays or film frame. Turret-based handlers use a rotating turret mechanism that provides very high device throughput and efficient integration of multiple back-end finishing operations.

Test-in-strip handlers accommodate devices in strips or panels prior to the final singulation step in the semiconductor manufacturing process flow and are typically used for high-parallel testing applications.

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.

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Our products are complex electromechanical systems that 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. Our semiconductor equipment companies 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 Semiconductor Equipment 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 in the semiconductor equipment market:

Pick-and-place

The ***EDGE*** is a pick-and-place handler that combines an economical design with a small footprint and fast index time (processing speed of the contactor placement mechanism). The ***EDGE*** handler is designed to meet the needs of integrated circuit manufacturers and subcontractors who test at ambient and hot temperatures.

The **MATRiX** is a high performance pick-and-place handler capable of thermally conditioning devices from -60 degrees Celsius to +175 degrees Celsius. It provides increased productivity in several dimensions of performance: high throughput and test parallelism, scalability and active thermal control per test site. With an adjustable test site configuration, customers can reuse existing load-boards, including those made for competitor equipment and gravity handlers. The system also provides flexibility with field upgradeable options including a chamberless tri-temperature test site and auto contactor cleaning.

The **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.

The **Summit** series of pick-and-place thermal handlers incorporate our proprietary thermal control technology. The Summit PTC, or Passive Thermal Control, and ATC, or Active Thermal Control, models dissipate the heat generated during test enabling the integrated circuit to be tested successfully at its maximum speed and performance.

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 handing automation that efficiently links various assembly test processes.

Gravity-Feed

The **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 **SO2000** is a modular platform that offers a reliable solution for testing small integrated circuit packages up to 4 devices in parallel. The base platform can be configured with various input and output modules: tube, metal magazine, bowl, bulk, tape and reel, and an optional laser marking unit. This handler can be configured for ambient-hot or tri-temperature testing.

Saturn and **Jupiter** are our next generation gravity handlers delivering a 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.

Test-in-strip

The **Jaguar** (formerly called **SO3000)** 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.

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Turret

NX32 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 NX32 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 NX32 is capable of testing devices at ambient and hot temperature.

NY20 is our next generation turret handler platform that delivers higher 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 new 20-position turret offers many of the functional modules and capabilities available on the NX32 platform in a smaller footprint, higher throughput handler.

Micro-Electro-Mechanical Systems (MEMS)

MEMS modules generate a physical stimuli for testing of sensor integrated circuits 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

We have adapted our proprietary thermal control technology for use by integrated circuit manufacturers in high performance burn-in and system level test. The **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. T-Core is also used in engineering device characterization applications.

Fusion HD is the next generation tri-temperature thermal sub-system leveraging our advanced T-Core technology for testing mobile processors. The Fusion HD thermal sub-system can test greater than 450 devices in parallel while thermally conditioning and accurately controlling each device temperature through stringent, power dissipative test scripts.

Contactors

It is becoming increasingly important to supply an integrated solution for power semiconductor testing in automotive, industrial and LED markets. SEG designs, manufactures, sells and supports 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.

Spares

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

Tooling (kits)

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

Sales by Product Line

During the last three years, sales of our semiconductor equipment products were distributed as follows:

	2014	2013	2012
Semiconductor test handler systems	47%	40%	56%
Thermal sub-systems	9%	8%	5%
Spares, tooling (kits) and service	44%	52%	39%

Mobile Microwave Communications

BMS develops, manufactures and sells mobile microwave communications equipment, antenna systems and associated equipment. These products are used in the transmission of video, audio and telemetry data. Applications for these microwave data-links include unmanned aerial vehicles (UAVs), law enforcement, security and surveillance, electronic news gathering and live broadcast communications.

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Customers

Semiconductor Equipment

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, a single customer from our semiconductor equipment segment comprised 10% or greater of our consolidated net sales:

	2014	2013	2012
Intel	15%	17%	42%

The loss of, or a significant reduction in, orders by this 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 8, Segment and Related Information in Part IV, Item 15(a) of this Form 10-K.

Mobile Microwave Communications

Our customer base for microwave communications equipment is diverse and includes government agencies, law enforcement and public safety organizations, unmanned aerial vehicle program contractors, television broadcasters, entertainment companies, professional sports teams and other commercial entities throughout the world. No single customer of this segment accounted for 10% or more of our consolidated net sales in 2014, 2013 or 2012.

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. The U.S. sales office for our semiconductor equipment businesses is located in Poway, California. The Europe sales office is located in Kolbermoor, Germany. We operate in Asia with headquarters in Singapore and branch offices in Taiwan, China, Thailand, Korea and Malaysia. Sales in Japan are made primarily through independent sales representatives.

Competition

Semiconductor Equipment

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, 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.

Mobile Microwave Communications Equipment

Our products in the microwave communications equipment segment are sold in highly competitive markets throughout the world, where we compete on the basis of product performance and integration with customer requirements, service, product quality, reliability and price. Many of our competitors are divisions or segments of large, diversified companies with substantially greater financial, engineering, marketing, manufacturing and customer support capabilities than Cohu. No assurance can be given that we will continue to compete successfully in these market segments.

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Backlog

Our backlog of unfilled orders for products, by segment at December 27, 2014 and December 28, 2013, were as follows:

(in millions)	2014	2013
Semiconductor equipment	$ 66.8	$ 75.4
Microwave communications	8.6	10.1
Total consolidated backlog	$ 75.4	$ 85.5

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 particular 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 Poway, California (Delta and BMS); Laguna, Philippines (Delta-kits); Kolbermoor, Germany (Rasco); Malacca, Malaysia (Delta and Ismeca); and Suzhou, China (Ismeca-kits).

Many of the components and subassemblies we utilize are standard products, although some items are made to our specifications. Certain components, particularly in our semiconductor equipment businesses, 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 patents, licenses, trademarks, copyrights and trade secrets. In addition, we believe that, due to the rapid pace of technological change in the semiconductor equipment industry and mobile microwave communications market, 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 $40.6 million in 2014, $46.5 million in 2013 (both 2014 and 2013 include Ismeca, acquired on December 31, 2012), and $33.6 million in 2012.

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.

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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 18, 2015. Executive Officers serve at the discretion of the Board of Directors, until their successors are appointed.

Name	Age	Position
Cohu:		
James A. Donahue	66	Executive Chairman
Luis A. Müller	45	President and Chief Executive Officer
Jeffrey D. Jones	53	Vice President, Finance and Chief Financial Officer
John H. Allen	63	Vice President, Administration
Cohu wholly owned subsidiaries:		
Hock W. Chiang	57	Vice President Global Sales & Service SEG
Peter Portmann	57	Vice President Global Operations SEG

Mr. Donahue has been employed by Delta since 1978 and was President of Delta from May 1983 until December 2010. In October 1999, Mr. Donahue was named President and Chief Operating Officer of Cohu and was appointed to Cohu s Board of Directors. In June 2000, Mr. Donahue was promoted to Chief Executive Officer and was appointed Chairman of the Board in March 2010. Effective December 28, 2014 Mr. Donahue retired as Cohu s President and Chief Executive Officer and became Executive Chairman of Cohu s Board of Directors.

Mr. Müller joined Delta in 2005 as Director of Engineering. In July 2008, Mr. Müller was promoted to the position of Vice President of the High Speed Handling Group for Delta and in January 2009 he was named Managing Director of Rasco. In January 2011, Mr. Müller was appointed President of Cohu s Semiconductor Equipment Group. Effective December 28, 2014 Mr. Müller was promoted to President and Chief Executive Officer of Cohu and was appointed to Cohu s Board of Directors.

Mr. Jones joined Delta in 2005 as Vice President Finance. In November 2007, Mr. Jones was named Vice President, Finance and Chief Financial Officer of Cohu. Prior to joining Delta, Mr. Jones, was a consultant from 2004 to 2005 and Vice President and General Manager of the Systems Group at SBS Technologies, Inc., a designer and manufacturer of embedded computer products, from 1998 to 2003.

Mr. Allen has been employed by Cohu since June 1995. He was Director of Finance until September 1995, became Vice President, Finance in September 1995, and was appointed Chief Financial Officer in October 1995. In November 2007, Mr. Allen was made Vice President, Administration. Prior to joining Cohu, Mr. Allen held various positions with Ernst & Young LLP from 1976 until June 1995 and had been a partner with that firm since 1987.

Mr. Chiang has been employed by Cohu since 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. Additionally, from 1995 through 2011, Mr. Chiang held a variety of positions at Teradyne, Inc. (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. Portmann began his employment with Cohu with the acquisition of Ismeca on December 31, 2012 and was named Vice President Global Operations for Cohu s Semiconductor Equipment Group in January 2013. Immediately prior to joining Cohu, Mr. Portman served as the Vice President and Global Operations Manager of Ismeca for seven years. Additionally, from 1994 through 2001, Mr. Portmann held a variety of leadership positions at Ismeca including General Manager of Ismeca Malaysia and Vice President of the Semiconductor Division.

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Employees

At December 27, 2014, we had approximately 1,600 employees. Our employee headcount has fluctuated in the last five years primarily due to the volatile business conditions in the semiconductor equipment industry and the acquisitions of Rasco and Ismeca. Our employees in the United States and most locations in Asia are not covered by collective bargaining agreements, however, certain employees at Rasco s facility in Kolbermoor, Germany, are represented by a works council, employees at Ismeca s facility La Chaux-de-Fonds, Switzerland are members of the micro-technology and Swiss watch trade union and certain employees in Ismeca s 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

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.

We have made, and may in the future make, acquisitions of, or significant investments in, businesses with complementary products, services and/or technologies. Acquisitions and investments involve numerous risks, including, but not limited to:

- difficulties and increased costs in connection with integration of the personnel, operations, technologies and products of acquired businesses;
- increasing the scope, geographic diversity and complexity of our business;
- diversion of management s attention from other operational matters;
- the potential loss of key employees or customers of Cohu or acquired businesses;
- lack of synergy, or the inability to realize expected synergies, resulting from the acquisition;

failure to commercialize purchased technology; and

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

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

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

Mergers, acquisitions and investments are inherently risky and the inability to effectively manage these risks could materially and adversely affect our business, financial condition and results of operations. At December 27, 2014 we had goodwill and net purchased intangible assets balances of $63.1 million and $33.1 million, respectively. In the fourth quarter of 2014 we determined that the carrying value of our microwave communications equipment segment was higher than its current fair market value and, as a result, we recorded a non-cash, pre-tax impairment charge of $5.0 million. Additional information can be found in Note 3, Microwave Communications Equipment Segment Impairment and Restructuring in Part IV, Item 15(a) of this Form 10-K. Subsequent to this write-off we still have goodwill within our semiconductor equipment reporting unit and we may incur additional goodwill impairment charges in the future, which will have a negative impact on our results of operations and financial condition.

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

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

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

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

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

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

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

Our microwave communications equipment segment depends on governments for a significant portion of its sales, creating uncertainty in the timing of and funding for projected contracts.

A significant portion of the sales of BMS are made to federal, state, local and foreign government agencies as a prime or sub-contractor. Government spending has historically been cyclical. A decrease in government spending or changes in spending allocation could result in one or more of the programs being reduced, delayed or terminated. Reductions or delays in the funding process or changes in funding caused by automatic budget cuts (sequestration) or unforeseen world events can impact the timing of available funds or can lead to changes in program content or termination. The loss of anticipated funding or the termination of multiple or large programs could have an adverse effect on our future sales and earnings.

The semiconductor industry we serve is highly volatile and unpredictable.

Visibility into our markets is limited. Our operating results are substantially dependent on our semiconductor equipment business. This capital equipment business is in turn highly dependent on the overall strength of the semiconductor industry. Historically, the semiconductor industry has been highly cyclical with recurring periods of oversupply and excess capacity, which often have had a significant effect on the semiconductor industry s demand for capital equipment, including equipment of the type we manufacture and market. We anticipate that the markets for newer generations of semiconductors and semiconductor equipment may also be subject to similar cycles and severe downturns. Any significant reductions in capital equipment investment by semiconductor integrated device manufacturers and test subcontractors will materially and adversely affect our business, financial position and results of operations. In addition, the volatile and unpredictable nature of semiconductor equipment demand has in the past and may in the future expose us to significant excess and obsolete and lower of cost or market inventory write-offs and reserve requirements. In 2014, 2013 and 2012, we recorded pre-tax inventory-related charges of approximately $3.9 million, $7.8 million, and $8.6 million, respectively, primarily as a result of changes in customer forecasts.

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

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

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

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

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

Semiconductor equipment is subject to rapid technological change, product introductions and transitions 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 increased exposure resulted in significant charges to operations during each of the years in the three-year period ended December 27, 2014. Future inventory write-offs and increased inventory reserve requirements could have a material adverse impact on our results of operations and financial condition.

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

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

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

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

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

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

A small number of customers of our semiconductor equipment segment have been responsible for a significant portion of our net sales. During the past five years, the percentage of our sales derived from these significant customers has varied greatly. Such variations are due to changes in the customers business and their purchase of

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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. In order to address quality issues, we work extensively with our customers and suppliers and engage in product testing to determine the cause of quality problems and appropriate solutions. Finding solutions to quality issues can be expensive and may result in additional warranty, replacement and other costs, adversely affecting our profits. In addition, quality issues can impair our relationships with new or existing customers and adversely affect our reputation, which could lead to a material adverse effect on our operating results.

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

The semiconductor equipment industry is characterized by dramatic and sometimes volatile changes in demand for its products. A number of factors including the semiconductor industry s continually changing and unpredictable capacity requirements and changes in integrated circuit design and packaging, result in changes in product demand. Sudden changes in demand for semiconductor equipment have a significant impact on our operations. Typically, we reduce and increase our workforce, particularly in manufacturing, based on customer demand for our products. These changes in workforce levels place enormous demands on our employees, operations and infrastructure since newly hired personnel rarely possess the expertise and level of experience of current employees. Additionally, these transitions divert management time and attention from other activities and adversely impact employee morale. We have in the past and may in the future experience difficulties, particularly in manufacturing, in training and recruiting the large number of additions to our workforce. The volatility in headcount and business levels, combined with the cyclical nature of the semiconductor industry, may require that we invest substantial amounts in new operational and financial systems, procedures and controls. We may not be able to successfully adjust our systems, facilities and production capacity to meet our customers changing requirements. The inability to meet such requirements will have an adverse impact on our business, financial position and results of operations.

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 and La Chaux-de-Fonds, Switzerland areas, where the majority of our development 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.

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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 or a limited number of suppliers. In addition, suppliers may cease manufacturing certain components 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 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.

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, 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 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 in order 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.

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

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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 in the event that 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.

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.

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 the Philippines, Malaysia and China. These regions are known for being vulnerable to natural disasters and other risks, such as earthquakes, tsunamis, fires, and floods, which at times have disrupted the local economies. A significant earthquake or tsunami could materially affect operating results. We are not insured for most losses and business interruptions of this kind, and do not presently have redundant, multiple site capacity in the event of a natural disaster. In the event of such disaster, our business would suffer. Furthermore, we have customers throughout the Middle East and terrorist attacks, protests or other threats in this region may cause geopolitical instability, which may have an adverse impact on our business, results of operations and financial condition.

Our financial and operating results may vary and may 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:

- cyclical 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;

- 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.

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We have experienced significant volatility in our stock price.

A variety of factors may cause the price of our stock to be volatile. In recent years, 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 last three years the price of our common stock has ranged from $14.16 to $7.96. The price of our stock may be more volatile than the stock of other companies due to, among other factors, the unpredictable and cyclical 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 27, 2014, identified by business segment is set forth below:

Approximate

Location	Approximate Sq. Footage	Ownership
Poway, California (1) (2) (3)	338,000	Owned
Kolbermoor, Germany (1)	40,000	Owned
Malacca, Malaysia (1)	50,000	Leased
Calamba City, Laguna, Philippines (1)	51,000	Leased
La Chaux-de-Fonds, Switzerland (1)	34,000	Leased
Suzhou, China (1)	6,000	Leased

(1) Semiconductor Equipment

(2) Microwave Communications

(3) 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 authorities and claims that have arisen in the ordinary course of our businesses.

The outcome of any litigations, examinations and claims is inherently uncertain. While there can be no assurance, we do not believe at the present time 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.

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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 2014		Fiscal 2013	
	High	Low	High	Low
First Quarter	$ 11.36	$ 9.26	$ 11.49	$ 9.13
Second Quarter	$ 11.35	$ 9.73	$ 12.93	$ 8.63
Third Quarter	$ 13.08	$ 10.12	$ 13.40	$ 9.82
Fourth Quarter	$ 12.46	$ 9.67	$ 11.19	$ 9.01

Holders

At February 18, 2015, Cohu had 499 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 2014 and 2013 were as follows:

	Fiscal 2014	Fiscal 2013
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 27, 2014 *(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	3,795	$	11.67	1,176
Equity compensation plans not approved by security holders				
	3,795	$	11.67	1,176

(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 27, 2014.

(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 183,591 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.

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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 a Peer Group Index, Custom Group Index and a NASDAQ Market Index over the same period (assuming the investment of $100 in Cohu s common stock, Peer Group Index, Custom Group Index and NASDAQ Market Index on December 26, 2009 and reinvestment of all dividends). The Peer Group Index set forth on the Performance Graph is the Morningstar Semiconductor Equipment and Materials Index. The Morningstar Semiconductor Equipment and Materials Index is comprised of approximately 40 publicly-held semiconductor equipment and other related companies. In the current year we also selected the Custom Group Index that is comprised of the peer group companies associated with our performance stock units issued under our equity incentive plan. In 2014 the Custom Group Index was comprised of Advanced Energy Industries Inc., Advantest Corp., ASM Pacific Technology Ltd., Axcelis Technologies Inc., BE Semiconductor Industries N.V., Brooks Automation Inc., Cabot Microelectronics Corp., Cascade Microtech Inc., Electro Scientific Industries Inc., FormFactor Inc., Kulicke and Soffa Industries Inc., Mattson Technology Inc., MKS Instruments Inc., Nanometrics Inc., Newport Corp., Photronics Inc., Rudolph Technologies Inc., Teradyne Inc., Tessera Technologies Inc., Ultra Clean Holdings Inc., Ultratech Inc., and Xcerra Corp. Historical stock price performance is not necessarily indicative of future stock price performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among Cohu Inc., the NASDAQ Composite Index,

Peer Group, and Custom Group

	2009	2010	2011	2012	2013	2014
Cohu, Inc.	$ 100	$ 117	$ 85	$ 79	$ 79	$ 96
NASDAQ Index	$ 100	$ 118	$ 119	$ 139	$ 197	$ 224
Peer Group	$ 100	$ 111	$ 87	$ 99	$ 133	$ 162
Custom Group	$ 100	$ 105	$ 85	$ 97	$ 111	$ 130

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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 2014, we completed the sale of Cohu Electronics and as a result we are presenting Cohu Electronics as a discontinued operation for all periods presented. Additional information related to the sale of Cohu Electronics is included in Note 2, Disposal of Video Camera Segment in Part IV, Item 15(a) of this Form 10-K. On December 31, 2012, we purchased Ismeca and the results of its operations have been included in our consolidated financial statements since that date.

Years Ended,

(in thousands, except per share data)	Dec. 27 2014 [1]	Dec. 28 2013	Dec. 29 2012	Dec. 31 2011 [2]	Dec. 25 2010
Consolidated Statement of Operations Data:					
Net sales	$ 333,323	$ 231,574	$ 206,312	$ 290,615	$ 305,271
Income (loss) from continuing operations	$ 5,835	$ (34,260)	$ (12,122)	$ 15,203	$ 24,285
Net income (loss)	$ 8,708	$ (33,418)	$ (12,243)	$ 15,719	$ 24,644
Income (loss) from continuing operations - basic	$ 0.23	$ (1.37)	$ (0.50)	$ 0.63	$ 1.23
Income (loss) from continuing operations - diluted	$ 0.22	$ (1.37)	$ (0.50)	$ 0.62	$ 1.01
Net income (loss) - basic	$ 0.34	$ (1.34)	$ (0.50)	$ 0.65	$ 1.04
Net income (loss) - diluted	$ 0.33	$ (1.34)	$ (0.50)	$ 0.64	$ 1.02
Cash dividends per share, paid quarterly	$ 0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.24
Consolidated Balance Sheet Data:					
Total Consolidated Assets	$ 348,818	$ 345,423	$ 334,873	$ 350,010	$ 354,951
Working Capital	$ 145,264	$ 125,837	$ 184,703	$ 183,283	$ 160,336

(1) Income from continuing operations for the year ended December 27, 2014 includes an impairment charge of $5.0 million. Additional information can be found in Note 3, Microwave Communications Equipment Segment Impairment and Restructuring in Part IV, Item 15(a) of this Form 10-K.

(2) The year ended December 31, 2011 consists of 53 weeks. All other years are comprised of 52 weeks.

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

OVERVIEW

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

Average orders for back-end semiconductor equipment, as reported by Semiconductor Equipment and Materials International (SEMI), increased steadily through the first half of the year reaching a peak in June and have decreased during the second half of 2014. Consistent with the broader market, the order momentum within our semiconductor equipment segment that started toward the end of fiscal 2013 maintained an upward trend through the first half of 2014 and then declined in the second half of 2014 with orders generated by our semiconductor equipment segment decreasing approximately 32% sequentially in the fourth quarter of 2014 as customers digest the significant capacity additions from recent quarters and a large customer order was delayed into the first quarter of 2015. Additionally, we see a seasonal trend to the order demand for certain markets such as automotive and industrial integrated circuits that slow down during the winter months.

Despite the drop in order activity, we continue to experience broad demand across our product lines and customer base with our pick and place and gravity handlers benefiting in particular from continued demand from the automotive and industrial segments. Demand for our thermal subsystems is being driven by the continuing

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popularity of consumer products, including tablets and smartphones and the sustained improvement in the results within our turret business are being driven largely by the consumer, mobility and solid state lighting markets. We continue to be optimistic about the long-term prospects for the semiconductor equipment industry due to the increasing technological functionality of mobile devices, growing integrated circuit content in automotive, consumer and industrial applications, and the projected adoption of high brightness LEDs in general lighting.

Our microwave communications equipment segment comprised approximately 8% of our consolidated revenues during the three-year period ended December 27, 2014 and were approximately 5% for the year ended December 27, 2014. Our microwave communications equipment segment develops, manufactures and sells mobile microwave communications equipment, antenna systems and associated equipment. These products are used in the transmission of video, audio and telemetry data. Applications for these microwave data-links include unmanned aerial vehicles (UAVs), public safety, security, surveillance, electronic news gathering and live broadcast television. Customers for these products are government agencies, public safety organizations, UAV program contractors, television broadcasters and other commercial entities. During the fourth quarter of 2014, we determined that the fair market value of our microwave communications reporting unit goodwill was lower than its carrying value and, as a result, we recorded a non-cash, pre-tax impairment charge of $5.0 million, comprised of $3.1 million of goodwill, and $1.9 million other assets. Additional information is included in Note 3, Microwave Communications Equipment Segment Impairment and Restructuring in Part IV, Item 15(a) of this Form 10-K.

Application of Critical Accounting Estimates and Policies

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

- revenue recognition, including the deferral of revenue on sales to customers, which impacts our results of operations;
- estimation of valuation allowances and accrued liabilities, specifically product warranty, inventory reserves and allowance for bad debts, which impact gross margin or operating expenses;
- the recognition and measurement of current and deferred income tax assets and liabilities, unrecognized tax benefits and the valuation allowance on deferred tax assets, which impact our tax provision;
- the assessment of recoverability of long-lived assets including goodwill and other intangible assets, which primarily impacts gross margin or operating expenses if we are required to record impairments of assets or accelerate their depreciation; 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. 20%) of the equipment purchase price be paid only upon customer acceptance. In those situations, the majority portion (e.g. 80%) of revenue where 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.

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

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

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

Income Taxes: We estimate our liability for income taxes based on the various jurisdictions where we conduct business. This requires us to estimate our (i) current taxes; (ii) temporary differences that result from differing treatment of certain items for tax and accounting purposes and (iii) unrecognized tax benefits. Temporary differences result in deferred tax assets and liabilities that are reflected in the consolidated balance sheet. The deferred tax assets are reduced by a valuation allowance if, based upon all available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Establishing, reducing or increasing a valuation allowance in an accounting period generally results in an increase or decrease in tax expense in the statement of operations. We must make significant judgments to determine the provision for income taxes, deferred tax assets and liabilities, unrecognized tax benefits and any valuation allowance to be recorded against deferred tax assets. Our gross deferred tax asset balance as of December 27, 2014 was approximately $44.2 million, with a valuation allowance of approximately $37.0 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.

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 goodwill impairment test as of October 1st of each year. As of October 1, 2014, we concluded there was no impairment as the estimated fair values of our semiconductor equipment and microwave communications reporting units exceeded their carrying values by approximately 35% and 17%, respectively. Subsequent to our annual goodwill impairment test, in the fourth quarter of 2014, we determined an interim analysis was required and as of December 27, 2014 concluded that the fair market value of our microwave

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communications reporting unit goodwill was lower than its carrying value. As a result, we recorded a non-cash, pre-tax impairment charge in the fourth quarter of 2014. Additional information is included in Note 3, Microwave Communications Equipment Segment Impairment and Restructuring in Part IV, Item 15(a) of this Form 10-K.

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

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

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

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

In June 2014, we sold our video camera segment, Cohu Electronics, and its operating results are being presented as discontinued operations. All prior period amounts have been reclassified and unless otherwise indicated the discussion below covers the comparative results from continuing operations. Additionally, on December 31, 2012, we purchased Ismeca and the results of its operations have been included in our consolidated financial statements since that date.

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

	2014	2013	2012
Net sales	100.0%	100.0%	100.0%
Cost of sales	(66.3)%	(72.6)%	(70.1)%
Gross margin	33.7%	27.4%	29.9%
Research and development	(12.2)%	(20.1)%	(16.3)%
Selling, general and administrative	(17.3)%	(23.3)%	(20.4)%
Impairment of goodwill and other assets	(1.5)%	%	%
Income (loss) from continuing operations	2.7%	(16.0)%	(6.8)%

2014 Compared to 2013

Net Sales

Cohu s consolidated net sales increased 43.9% from $231.6 million in 2013 to $333.3 million in 2014. Our semiconductor equipment segment generated sales totaling $316.6 million and increased 47.6% from 2013. Semiconductor equipment sales represented 95.0% of consolidated net sales during 2014 versus 92.6% in the prior year. Sales in 2014 benefitted from higher spending on test equipment which resulted in increased shipments of our semiconductor equipment products used by automotive, mobile, consumer, discrete and industrial semiconductor customers.

Sales of microwave communications equipment were $16.7 million, which represents 5.0% of consolidated net sales in 2014 and decreased 2.2% compared to 2013.

Gross Margin

Gross margin consists of net sales less cost of sales. Cost of sales consists primarily of the cost of materials, assembly and test labor and overhead from operations. Our gross margin can fluctuate due to a number of factors, including, but not limited to, the mix of products sold, product support costs, inventory reserve adjustments and utilization of manufacturing capacity. Our gross margin, as a percentage of net sales, increased to 33.7% in 2014 from 27.4% in 2013. Improvement in our gross margin, as compared to the prior year, was generated by our semiconductor equipment segment and resulted from better operating leverage as a result of increased business volume, the benefits from the transition of our supply chain and manufacturing activities to Asia, favorable product mix and lower charges to cost of sales related to excess, obsolete and lower of cost or market inventory adjustments. In addition, prior year gross margin was negatively impacted by $1.0 million of inventory step-up costs recorded during the year and a one-time impact that resulted from the adoption of Cohu s revenue recognition policy.

Our gross margin has been impacted by charges to cost of sales related to excess, obsolete and lower of cost or market inventory issues. We compute the majority of our excess and obsolete inventory reserve requirements using a one-year inventory usage forecast. During 2014 and 2013, we recorded net charges to cost of sales of approximately $3.9 million and $7.8 million, respectively, 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 27, 2014, reductions in customer forecasts or continued modifications to products, as a result of our failure to meet specifications or other customer requirements, may result in additional charges to operations that could negatively impact our gross margin in future periods.

Research and Development Expense (R&D Expense)

R&D expense consists primarily of salaries and related costs of employees engaged in ongoing research, product design and development activities, costs of engineering materials and supplies and professional consulting expenses. 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 2014 was $40.6 million or 12.2% of net sales decreasing from $46.5 million or 20.1% of net sales in 2013. The decrease in 2014 was a result of product development programs that have concluded or are nearing completion as planned, and cost control measures which were implemented throughout 2013 and 2014 within both our semiconductor and microwave communications equipment segments.

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

SG&A expense consists primarily of salaries and benefit costs of employees, commission expense for independent sales representatives, product promotion and costs of professional services. SG&A expense as a percentage of net sales decreased to 17.3% in 2014, from 23.3% in 2013, increasing from $54.1 million in 2013 to $57.5 million in 2014. In 2014 SG&A expense increased, in absolute dollars, as a result of increased business volume within our semiconductor equipment segment and a $1.0 million increase in employee share based compensation expense. In 2014, our SG&A expense also benefitted from the strengthening of the U.S. dollar and we recorded $2.0 million in foreign currency translation gains. SG&A expense in 2014 included $2.2 million of manufacturing transition and employee severance costs incurred in connection with the transitioning of some of our semiconductor equipment manufacturing to Asia and the geographic consolidation of mobile microwave communications equipment segment. SG&A expense in 2013 included $1.7 million of manufacturing transition and severance costs and $0.4 million of acquisition related costs incurred in connection with completing the purchase of Ismeca.

Impairment of Goodwill and Other Assets

Subsequent to the preparation of our annual impairment test as of October 1, 2014, as a result of changes to the estimated market value of our microwave communications equipment reporting unit that occurred during the fourth quarter, we determined it was necessary to evaluate the recoverability of the carrying value of this segment as of December 27, 2014. For this analysis we utilized the market approach as the primary valuation method and determined that the carrying value of our microwave communications equipment reporting unit exceeded its current fair market value. As a result, we recorded a non-cash, pre-tax impairment charge of $5.0 million or 1.5% of net sales. There were no similar charges recorded in any other period presented. Additional information can be found in Note 3, Microwave Communications Equipment Segment Impairment and Restructuring in Part IV, Item 15(a) of this Form 10-K.

Income Taxes

The income tax provision expressed as a percentage of pre-tax income in 2014 was 36.1% and income tax benefit expressed as a percentage of pre-tax loss in 2013 was 7.6%. The income tax provision and benefit for the years ended December 27, 2014 and December 28, 2013 differs from the U.S. federal statutory rate primarily due to tax credits, changes in the valuation allowance on our deferred tax assets, foreign income taxed at different rates, non-deductible goodwill impairment charge 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 2014.

As a result of our cumulative, three-year U.S. GAAP pretax loss from continuing operations of approximately $43.2 million at the end of 2014, and our U.S. loss in 2014, we were unable to conclude at December 27, 2014 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 2015 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 DTAs at December 27, 2014 and December 28, 2013 was approximately $37.0 million and $36.1 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 significant deferred tax liabilities recorded as part of the 2008 acquisition of Rasco, a German corporation, and the fiscal 2013 acquisition of Ismeca, a Swiss Corporation, were not a source of taxable income in assessing the realization of our DTAs in the U.S.

The American Taxpayer Relief Act of 2012, which reinstated the United States federal research and development tax credit retroactively from January 1, 2012 through December 31, 2013, was not enacted into law until the first quarter of 2013. Therefore, the tax benefit from the credits for 2012 and 2013 are reflected in our 2013 income tax provision.

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 7, Income Taxes , included in Part IV, Item 15(a) of this Form 10-K, which is incorporated herein by reference.

Income (loss) from Continuing Operations and Net Income (loss)

As a result of the factors set forth above, our income from continuing operations was $5.8 million in 2014, compared to a loss of $34.3 million in 2013. Including the results of our discontinued video camera segment, our net income in 2014 was $8.7 million as compared to a net loss of $33.4 million in 2013.

2013 Compared to 2012

Net Sales

Cohu s consolidated net sales increased 12.3% from $206.3 million in 2012 to $231.6 million in 2013. Our semiconductor equipment segment generated sales totaling $214.5 million and increased 19.5% from 2012. Semiconductor equipment sales represented 92.6% of consolidated net sales during 2013 versus 87.0% in the prior year. Sales recorded by our semiconductor equipment segment during 2013 include twelve months of sales activity for Ismeca which were approximately $64.4 million. Semiconductor equipment sales in 2013 also benefitted from increased demand for gravity-feed equipment and MEMs modules which were offset by a decrease in customer orders for pick-and-place test handler systems.

Sales of microwave communications equipment were $17.1 million, which represents 7.4% of consolidated net sales in 2013 and decreased 36.5% compared to 2012. The decreased business volume within our microwave communications equipment segment during 2013 was a result of U.S. government sequestration and budget uncertainties which led to customer order delays and push outs for equipment to be used in security and surveillance infrastructure projects that rely on federal funding.

Gross Margin

Our gross margin, as a percentage of net sales, decreased to 27.4% in 2013 from 29.9% in 2012. During 2013 our gross margin was negatively impacted by $0.3 million of manufacturing transition and severance costs incurred as a result of moving certain manufacturing activities to Asia as part of our efforts to reduce costs and streamline our operations. The acquisition of Ismeca also reduced 2013 gross margin due to $1.0 million of inventory step-up costs recorded during the year and a one-time impact that resulted from the adoption of Cohu s revenue recognition policy. During 2013 and 2012, we recorded net charges to cost of sales of approximately $7.8 million and $8.6 million, respectively, for excess and obsolete inventory.

R&D Expense

R&D expense in 2013 includes twelve months of costs for Ismeca. R&D expense in 2013 was $46.5 million or 20.1% of net sales increasing from $33.6 million or 16.3% of net sales in 2012. The increase in 2013 was a result of $11.6 million in incremental R&D expense generated by Ismeca, as well as product development expense incurred by our semiconductor equipment segment and $0.4 million of manufacturing transition and severance costs incurred by our semiconductor equipment and microwave communications equipment businesses.

SG&A Expense

SG&A expense as a percentage of net sales increased to 23.3% in 2013, from 20.4% in 2012, increasing from $42.1 million in 2012 to $54.1 million in 2013. SG&A expense in 2013 included $12.6 million in incremental SG&A expense generated by Ismeca and $1.7 million of manufacturing transition and severance costs. Also included in SG&A are transaction costs totaling $0.4 million and $2.3 million in 2013 and 2012, respectively, incurred in connection with our acquisition of Ismeca.

Income Taxes

The credit for income taxes expressed as a percentage of pre-tax loss was 7.6% in 2013 and 6.7% in 2012. The credit for income taxes for the years ended December 28, 2013 and December 29, 2012 differs from the U.S. federal statutory rate primarily due to tax credits, changes in the valuation allowance on our deferred tax assets, foreign income taxed at different rates and other factors.

Our valuation allowance on DTAs at December 28, 2013 and December 29, 2012 was approximately $36.1 million and $24.9 million, respectively.

Loss from Continuing Operations and Net Loss

As a result of the factors set forth above, our loss from continuing operations in 2013 and 2012 was $34.3 million and $12.2 million, respectively. Including the results of our discontinued video segment, our net loss in 2013 and 2012 was $33.4 million and $12.1 million, respectively.

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 cyclical and volatile nature of demand for semiconductor equipment, our primary industry, makes estimates of future revenues, results of operations and net cash flows difficult.

Our primary historical source of liquidity and capital resources has been cash flow generated by our operations and we manage our businesses to maximize operating cash flows as our primary source of liquidity. We use cash to fund growth in our operating assets and to fund new products and product enhancements primarily through research and development. As of December 27, 2014, $47.4 million of our cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we may be required to accrue and pay U.S. taxes or foreign withholding taxes if we repatriate these funds. Our intent is to indefinitely reinvest these funds in our foreign operations and we have no current plans that would require us to repatriate these funds to the U.S.

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Liquidity

Working Capital: The following summarizes our cash, cash equivalents, short-term investments and working capital at December 27, 2014 and December 28, 2013:

(in thousands)	2014	2013	Increase	Percentage Change
Cash, cash equivalents and short-term investments	$ 72,040	$ 52,868	$ 19,172	36 %
Working capital	$ 145,264	$ 125,837	$ 19,427	15 %

Cash Flows

Operating Activities: Cash generated from operating activities consists of net income or loss adjusted for non-cash expenses and changes in operating assets and liabilities. Non-cash items include depreciation and amortization, share-based compensation expense and deferred income taxes. Our net cash flows provided by operating activities in 2014 totaled $19.7 million compared to $3.4 million in 2013. The increase in cash provided by operating activities was primarily a result of our net income in the current year. Cash provided by operating activities also was impacted by changes in current assets and liabilities and, excluding the impact of the sale of Cohu Electronics, included increases in accounts receivable of $15.5 million; accrued compensation, warranty and other liabilities of $6.1 million; inventories of $1.9 million; deferred profit of $1.4 million; other current and non-current assets of $1.1 million and income taxes payable of $1.4 million. The increase in accounts receivable resulted from a sequential increase in product shipments made by our semiconductor equipment segment during the second half of 2014 and the timing of the resulting cash conversion cycle. Material purchases made by our semiconductor equipment segment to fulfill orders for semiconductor equipment led to an increase in our inventory balance and deferred profit increased due to revenue deferrals of semiconductor equipment shipments made in accordance with our revenue recognition policy. The increases in accrued compensation, warranty and other liabilities resulted from higher business volume, increased incentive compensation accruals, the timing of cash payments made to our employees and the accrual of employee severance by our microwave communication equipment segment related to its geographic consolidation plan. The increase in income taxes payable is a result of an increase in taxable income generated in fiscal 2014.

Investing Activities: Investing cash flows consist primarily of cash used for capital expenditures in support of our businesses, proceeds from investment maturities, asset disposal and divestitures, and cash used for purchases of investments and business acquisitions. Our net cash provided by investing activities in 2014 totaled $8.6 million and was primarily the result of the sale of Cohu Electronics for $10.3 million. The decision to sell Cohu Electronics resulted from Cohu management s determination that this industry segment was no longer a strategic fit within our organization. Additions to property, plant and equipment 2014 were $1.7 million and were made to support the operating and development activities of our semiconductor equipment and microwave communication businesses.

Financing Activities: Cash used in financing activities consisted of amounts distributed to our stockholders in the form of cash dividends. During 2014, we paid dividends totaling $6.1 million, or $0.24 per common share. On February 19, 2015 we announced a cash dividend of $0.06 per share on our common stock, payable on, April 17, 2015 to stockholders of record as of March 3, 2015. 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. Offsetting cash used in the payment of dividends were the net proceeds from the issuance of common stock under our equity incentive and employee stock purchase plans, which totaled $1.9 million during 2014. We issue stock options and maintain an employee stock purchase plan as components of our overall employee compensation.

Capital Resources

We have a secured letter of credit facility (the Secured Facility) under which Bank of America, N.A., has agreed to administer the issuance of letters of credit on behalf of Cohu and our subsidiaries. The Secured Facility requires us to maintain deposits of cash or other approved investments, which serve as collateral, in amounts that approximate our outstanding standby letters of credit. As of December 27, 2014, we had approximately $0.4 million of standby letters of credit outstanding. As a result of the acquisition of Ismeca, we have an agreement with Credit Suisse (the Ismeca Facility) under which it administers a line of credit on behalf of Ismeca. Total borrowings available under the Ismeca Facility is 0.5 million Swiss Francs and at December 27, 2014 no amounts were outstanding.

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

Contractual Obligations

The following table summarizes our significant contractual obligations at December 27, 2014, 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 27, 2014. Amounts excluded include our liability for unrecognized tax benefits that totaled approximately $10.8 million at December 27, 2014. We are currently unable to provide a reasonably reliable estimate of the amount or period(s) the cash settlement of this liability may occur.

(in thousands)	2015	2016	2017	2018	2019	Thereafter	Total
Non-cancelable operating leases	$ 1,270	$ 1,111	$ 958	$ 676	$ 385	$ 1,155	$ 5,555

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 11, Guarantees in Part IV, Item 15(a) of this Form 10-K.

Commitments to contract manufacturers and suppliers. From time to time, we enter into commitments with our suppliers to purchase inventory and contract manufacturers to provide manufacturing services for our products at fixed prices or in guaranteed quantities. During the normal course of business, we issue purchase orders with estimates of our requirements several months ahead of the delivery dates. However, our agreements with these suppliers usually allow us the option to reschedule or adjust our requirements based on our business needs. Typically purchase orders outstanding with delivery dates within 30 days are non-cancelable. 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. 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 six to twelve 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 27, 2014, the maximum potential amount of future payments that we could be required to make under these standby letters of credit was approximately $0.4 million. No liability has been recorded in connection with these arrangements beyond those required to appropriately account for the underlying transaction being guaranteed. Based on historical experience and information currently available, we do not believe it is probable that any amounts will be required to be paid under these arrangements.

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

Investment and Interest Rate Risk.

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

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

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 and Philippine Peso. 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 expenses 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. The U.S. dollar strengthened relative to many foreign currencies as of December 27, 2014 compared to December 28, 2013 and consequently, our stockholders equity decreased by $14.1 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 27, 2014 would result in an approximate $9.7 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 27, 2014 would result in an approximate $9.7 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 27, 2014, 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 27, 2014.

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 27, 2014, as stated in their report which is included herein.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Cohu, Inc.

We have audited Cohu, Inc. s internal control over financial reporting as of December 27, 2014, 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). Cohu, Inc. 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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.

In our opinion, Cohu, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 27, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Cohu, Inc. as of December 27, 2014 and December 28, 2013, and the related consolidated statements of operations, comprehensive loss, stockholders equity, and cash flows for each of the three years in the period ended December 27, 2014 of Cohu, Inc. and our report dated February 24, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Diego, California

February 24, 2015

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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 2014 that have materially affected, or are reasonably likely to materially affect, or 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 2014.

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.

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 2014.

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 2014.

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 2014.

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 2014.

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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 31:

(2) Financial Statement Schedule

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.

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COHU, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

	December 27, 2014	December 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 70,885	$ 51,668
Short-term investments	1,155	1,200
Accounts receivable, net	73,646	58,164
Inventories:		
Raw materials and purchased parts	26,734	27,668
Work in process	21,738	16,941
Finished goods	7,073	10,800
	55,545	55,409
Deferred income taxes	4,406	5,516
Other current assets	9,180	8,619
Current assets of discontinued video camera segment (Note 2)		6,272
Total current assets	214,817	186,848
Property, plant and equipment, at cost:		
Land and land improvements	11,762	12,285
Buildings and building improvements	31,123	31,731
Machinery and equipment	42,352	42,105
	85,237	86,121
Less accumulated depreciation and amortization	(53,383)	(50,325)
Net property, plant and equipment	31,854	35,796
Goodwill	63,132	71,313
Intangible assets, net	33,087	45,315
Other assets	5,928	5,720
Noncurrent assets of discontinued video camera segment (Note 2)		431
	$ 348,818	$ 345,423
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 25,964	$ 25,292
Accrued compensation and benefits	19,643	14,271
Accrued warranty	6,184	5,155
Deferred profit	7,445	6,066
Income taxes payable	3,133	805
Other accrued liabilities	7,184	7,675
Current liabilities of discontinued video camera segment (Note 2)		1,747
Total current liabilities	69,553	61,011

Accrued retirement benefits	13,815	10,841
Noncurrent income tax liabilities	7,321	7,463
Deferred income taxes	11,061	12,948
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $1 par value; 1,000 shares authorized, none issued		
Common stock, $1 par value; 60,000 shares authorized, 25,692 shares issued and outstanding in 2014 and 25,080 shares in 2013	25,692	25,080
Paid-in capital	97,938	89,883
Retained earnings	134,152	131,546
Accumulated other comprehensive income (loss)	(10,714)	6,651
Total stockholders equity	247,068	253,160
	$ 348,818	$ 345,423

The accompanying notes are an integral part of these statements.

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COHU, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Years ended December 27, 2014	December 28, 2013	December 29, 2012
Net sales	$ 333,323	$ 231,574	$ 206,312
Cost and expenses:			
Cost of sales	221,088	168,186	144,590
Research and development	40,601	46,452	33,564
Selling, general and administrative	57,536	54,053	42,121
Impairment of goodwill and other assets (Note 3)	5,000		
	324,225	268,691	220,275
Income (loss) from operations	9,098	(37,117)	(13,963)
Interest and other from continuing operations, net	30	54	967
Income (loss) from continuing operations before taxes	9,128	(37,063)	(12,996)
Income tax provision (benefit)	3,293	(2,803)	(874)
Income (loss) from continuing operations	5,835	$ (34,260)	$ (12,122)
Income (loss) from discontinued operations, net of tax (Note 2)	2,873	842	(121)
Net income (loss)	$ 8,708	$ (33,418)	$ (12,243)
Income (loss) per share:			
Basic:			
Income (loss) from continuing operations	$ 0.23	$ (1.37)	$ (0.50)
Income from discontinued operations, net of tax	0.11	0.03	0.00
Net income (loss)	$ 0.34	$ (1.34)	$ (0.50)
Diluted:			
Income (loss) from continuing operations	$ 0.22	$ (1.37)	$ (0.50)
Income from discontinued operations, net of tax	0.11	0.03	0.00
Net income (loss)	$ 0.33	$ (1.34)	$ (0.50)
Weighted average shares used in computing income (loss) per share:			
Basic	25,393	24,859	24,459
Diluted	26,006	24,859	24,459

The accompanying notes are an integral part of these statements.

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COHU, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Years ended December 27, 2014	December 28, 2013	December 29, 2012
Net income (loss)	$ 8,708	$ (33,418)	$ (12,243)
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(14,107)	3,270	1,689
Adjustments related to postretirement benefits	(3,258)	1,604	122
Change in unrealized gain/loss on investments		(6)	(16)
Other comprehensive income (loss), net of tax	(17,365)	4,868	1,795
Comprehensive loss	$ (8,657)	$ (28,550)	$ (10,448)

The accompanying notes are an integral part of these statements.

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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 income (loss)	Total
Balance at December 31, 2011	$ 24,330	$ 77,658	$ 189,055	$ (12)	$ 291,031
Net loss			(12,243)		(12,243)
Changes in cumulative translation adjustment				1,689	1,689
Adjustments related to postretirement benefits, net of tax				122	122
Changes in unrealized gains and losses on investments, net of tax				(16)	(16)
Cash dividends - $0.24 per share			(5,875)		(5,875)
Exercise of stock options	73	536			609
Shares issued under employee stock purchase plan	152	1,100			1,252
Shares issued for restricted stock units vested	108	(108)			
Repurchase and retirement of stock	(31)	(260)			(291)
Share-based compensation expense		4,621			4,621
Balance at December 29, 2012	24,632	83,547	170,937	1,783	280,899
Net loss			(33,418)		(33,418)
Changes in cumulative translation adjustment				3,270	3,270
Adjustments related to postretirement benefits, net of tax				1,604	1,604
Changes in unrealized gains and losses on investments, net of tax				(6)	(6)
Cash dividends - $0.24 per share			(5,973)		(5,973)
Exercise of stock options	117	769			886
Shares issued under employee stock purchase plan	163	1,088			1,251
Shares issued for restricted stock units vested	249	(249)			
Repurchase and retirement of stock	(81)	(740)			(821)
Share-based compensation expense		5,468			5,468
Balance at December 28, 2013	25,080	89,883	131,546	6,651	253,160
Net income			8,708		8,708
Changes in cumulative translation adjustment				(14,107)	(14,107)
Adjustments related to postretirement benefits, net of tax				(3,258)	(3,258)
Cash dividends - $0.24 per share			(6,102)		(6,102)
Exercise of stock options	237	1,764			2,001
Shares issued under employee stock purchase plan	139	1,001			1,140
Shares issued for restricted stock units vested	353	(353)			
Repurchase and retirement of stock	(117)	(1,133)			(1,250)
Share-based compensation expense		6,776			6,776
Balance at December 27, 2014	$ 25,692	$ 97,938	$ 134,152	$ (10,714)	$ 247,068

The accompanying notes are an integral part of these statements.

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COHU, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years ended December 27, 2014	December 28, 2013	December 29, 2012
Cash flows from operating activities:			
Net income (loss)	$ 8,708	$ (33,418)	$ (12,243)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Gain on disposal of video camera segment	(4,434)		
Impairment of goodwill and other assets (Note 3)	5,000		
Operating cash flows of discontinued operations	(694)	2,316	1,686
Depreciation and amortization	13,528	13,328	9,215
Share-based compensation expense	6,585	5,346	4,499
Gain on sale of facility			(677)
Deferred income taxes	(487)	(2,132)	581
Accrued retiree benefits	659	130	(91)
Changes in current assets and liabilities, excluding effects from acquisitions, divestitures and impairments:			
Accounts receivable	(15,484)	(2,357)	3,215
Accrued compensation, warranty and other liabilities	6,121	(1,583)	(6,476)
Inventories	(1,850)	11,884	19,697
Deferred profit	1,379	3,833	(682)
Other current and non-current assets	(1,083)	(569)	945
Income taxes payable, including excess stock option exercise benefits	1,410	156	(1,662)
Accounts payable	320	6,483	(4,838)
Net cash provided by operating activities	19,678	3,417	13,169
Cash flows from investing activities, excluding effects from acquisitions, divestitures and impairments:			
Cash received from sale of video camera segment, net	10,258		
Sales and maturities of short-term investments	1,045	6,221	84,780
Purchases of short-term investments	(1,000)		(40,461)
Purchases of property, plant and equipment	(1,660)	(3,874)	(3,240)
Payment for purchase of Ismeca, net of cash received		(53,463)	
Payment for purchase of Duma Video, Inc.			(900)
Cash received from facility sale			1,080
Other assets		(176)	(66)
Investing cash flows of discontinued operations	(6)	(34)	(27)
Net cash provided by (used in) investing activities	8,637	(51,326)	41,166
Cash flows from financing activities:			
Cash dividends paid	(6,067)	(4,468)	(7,333)
Issuance of stock, net	1,891	1,316	1,570
Net cash used in financing activities	(4,176)	(3,152)	(5,763)
Effect of exchange rate changes on cash and cash equivalents	(4,922)	(79)	974
Net increase (decrease) in cash and cash equivalents	19,217	(51,140)	49,546

Cash and cash equivalents at beginning of year	51,668	102,808	53,262
Cash and cash equivalents at end of year	$ 70,885	$ 51,668	$ 102,808
Supplemental disclosure of cash flow information:			
Cash paid (refunded) during the year for income taxes	$ 971	$ (900)	$ 711
Inventory capitalized as capital assets	$ 1,301	$ 657	$ 567
Dividends declared but not yet paid	$ 1,539	$ 1,504	$

The accompanying notes are an integral part of these statements.

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COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. 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 equipm and microwave communications systems. Our consolidated financial statements include the accounts of Cohu and our wholly owned subsidiaries. All significant 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 fiscal years ended on December 27, 2014, December 28, 2013 and December 29, 2012 each consisted of 52 weeks.

Risks and Uncertainties We are subject to a number of risks and uncertainties that may significantly impact our future operating results. These risks and uncertainties are discussed under Part I, Item 1A. Risk Factors included in this Annual Report on Form 10-K. Understanding these risks and uncertainties is integral to the review of our consolidated financial statements.

Discontinued Operations On June 6, 2014 we completed the sale of substantially all of the assets of our video camera segment, Cohu Electronics, and its operating results are being presented as discontinued operations and all prior period amounts have been reclassified accordingly. See Note 2, Disposal of Video Camera Segment 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 per share includes the dilutive effect of common shares potentially issuable upon the exercise of stock options, vesting of outstanding restricted stock units and issuance of stock under our employee stock purchase plan using the treasury stock method. In loss periods, potentially dilutive securities are excluded from the per share computations due to their anti-dilutive effect. For purposes of computing diluted income per share, stock options with exercise prices that exceed the average fair market value of our common stock for the period are excluded. For the year ended December 27, 2014 approximately 1,771,000 shares of our common stock were excluded from the computation.

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

(in thousands)	2014	2013	2012
Weighted average common shares outstanding	25,393	24,859	24,459
Effect of dilutive stock options and restricted stock units	613		
	26,006	24,859	24,459

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 from December 27, 2014 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, short-term investments, 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.

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COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Trade accounts receivable are presented net of allowance for doubtful accounts of $0.3 million at December 27, 2014 and $0.5 million at December 28, 2013. Our customers include semiconductor manufacturers and semiconductor test subcontractors and other customers 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 27, 2014, we will continue to monitor customer liquidity and other economic conditions, which may result in changes to our estimates regarding collectability.

Inventories Inventories are stated at the lower of cost, determined on a current average or first-in, first-out basis, or market. 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 market values are below our costs. Charges to cost of sales for excess and obsolete inventories aggregated $3.9 million, $7.8 million, and $8.6 million in 2014, 2013 and 2012, respectively.

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.

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 goodwill impairment test as of October 1st of each year. As of October 1, 2014, we concluded there was no impairment as the estimated fair values of our semiconductor equipment and microwave communications reporting units exceeded their carrying values by approximately 35% and 17%, respectively. Subsequent to our annual goodwill impairment test, in the fourth quarter of 2014, we determined an interim analysis was required and as of December 27, 2014 concluded that the fair market value of our microwave communications reporting unit goodwill was lower than its carrying value. As a result, we recorded a non-cash, pre-tax impairment charge of $5.0 million, comprised of $3.1 million of goodwill, and $1.9 million other assets in the fourth quarter of 2014. Additional information is included in Note 3, Microwave Communications Equipment Segment Impairment and Restructuring .

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 assets 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.

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COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

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. 20%) of the equipment purchase price be paid only upon customer acceptance. In those situations, the majority portion (e.g. 80%) of revenue where 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. 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 in our consolidated balance sheet. At December 27, 2014, we had total deferred revenue of approximately $11.3 million and deferred profit of $7.4 million. At December 28, 2013, we had total deferred revenue of approximately $7.4 million and deferred profit of $6.1 million.

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), future forfeitures 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.

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Foreign Currency Translation Assets and liabilities of those subsidiaries that use the U.S. dollar as their functional currency are translated 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 translated using historical exchange rates. Revenues and costs are translated using average exchange rates for the period, except for costs related to those balance sheet items that are translated using historical exchange rates. Gains and losses on foreign currency transactions are recognized as incurred. 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. During 2014 strengthening of the U.S. dollar, against primarily the Swiss Franc and Euro resulted in approximately $2.0 million of gains being recognized in our consolidated statement of operations. Gains and losses were not significant in any of the other periods presented. Cumulative translation adjustments resulting from the translation of the financial statements are included as a separate component of stockholders equity.

Comprehensive Income (Loss) Our accumulated other comprehensive loss totaled approximately $10.7 million at December 27, 2014 and at December 28, 2013 our other comprehensive income totaled approximately $6.7 million 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 strengthened relative to many foreign currencies as of December 27, 2014 compared to December 28, 2013. Consequently, accumulated comprehensive income decreased by $14.1 million as a result of the foreign currency translation as of December 27, 2014. Additional information related to accumulated other comprehensive income, on an after-tax basis is included in Note 12.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements In July 2013, the Financial Accounting Standards Board (FASB) issued guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This amendment to previous income tax guidance clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax benefit is disallowed. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be netted with the deferred tax asset. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this new guidance in the first quarter of fiscal 2014 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2013, the FASB issued guidance on a parent company s accounting for the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. This new guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The amendments will be effective for fiscal years and interim periods starting after December 15, 2013 with early adoption permitted. The adoption of this new guidance in the first quarter of fiscal 2014 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In April 2014, the FASB issued new guidance on reporting discontinued operations and disclosures of disposals of components of an entity, which amends the existing definition of a discontinued operation and requires entities to disclose additional information about disposal transactions that do not meet the discontinued operations criteria. The guidance redefines a discontinued operation as a component or group of components of an entity that has been disposed of by sale or other than by sale or is classified as held for sale and represents a strategic shift that has a major effect on an entity s operations and financial results. The

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guidance is effective prospectively for disposals or components classified as held for sale in periods on or after December 15, 2014 with early adoption permitted. Cohu elected to implement this new guidance in the second quarter of fiscal 2014 and the adoption did not have a material impact on our consolidated financial position, results of operations or cash flows.

Recently Issued Accounting Pronouncements In May 2014, the FASB issued new guidance on revenue from contracts with customers. The amended guidance outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities have the option of using either a full retrospective or modified approach to adopt the guidance. This guidance is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. Early adoption is not permitted. We are still evaluating the impact this new guidance might have on our consolidated financial position, results of operations or cash flows.

In August 2014, the FASB issued new guidance on going concern, which requires management to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. This guidance is effective for annual and interim periods beginning after December 15, 2016 with early adoption permitted. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

2. Disposal of Video Camera Segment (Cohu Electronics)

On June 6, 2014, we completed the sale of substantially all the assets of our video camera segment. Our decision to sell resulted from management s determination that this industry segment was no longer a strategic fit within our organization. The sales price was $9.5 million in cash and included up to $0.5 million in contingent consideration and a working capital adjustment. In connection with the sale we incurred $0.8 million of divestiture-related costs that would not have been incurred otherwise. These costs, which are netted against the gain on disposal presented below consist of legal advisory services, success based compensation arrangements and certain other items that are incremental to normal operating charges and were expensed as incurred.

Balance sheet information of our discontinued video camera segment is summarized as follows *(in thousands)*:

	December 27, 2014	December 28, 2013
Assets:		
Accounts receivable, net	$	$ 2,597
Inventories		3,568
Other current assets		107
Total current assets		6,272
Property, plant and equipment, net		431
Total assets	$	$ 6,703
Liabilities:		
Accounts payable	$	$ 730

Other accrued current liabilities		1,017
Total liabilities	$	$ 1,747

Operating results of our discontinued video camera segment is summarized as follows:

(in thousands)	2014	2013	2012
Net sales	$ 5,460	$ 15,726	$ 14,850
Operating income (loss) before income taxes	$ (242)	$ 1,317	$ (121)
Gain on disposal of video camera segment	4,434		
Income tax provision (benefit)	1,319	475	
Income from discontinued operations, net of taxes	$ 2,873	$ 842	$ (121)

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In the fourth quarter of fiscal 2014 we revised the fair value contingent consideration to be earned pursuant to the definitive agreement by $0.3 million as a result of the achievement of certain milestones. This adjustment in the fair value of the contingent consideration has been included in the gain on disposal of video camera segment presented above.

3. Microwave Communications Equipment Segment Impairment and Restructuring

Impairment of Goodwill and Other Assets

We are required to assess goodwill impairment using the methodology prescribed by Accounting Standards Codification No. 350, Intangible Goodwill and Other (ASC 350), which requires that we evaluate goodwill for impairment annually. We conduct our annual impairment test as of October 1st of each year and as of October 1, 2014 we previously determined there was no impairment as the estimated fair values of our semiconductor equipment and microwave communications reporting units exceeded their carrying values by approximately 35% and 17%, respectively. In addition to the annual goodwill impairment test, an interim test for impairment is required to be completed when an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying value.

ASC 350 requires a two-step impairment test to identify and measure any goodwill impairment loss. The first step is used to identify potential impairment and compares the fair value of a reporting unit with its carrying (book) value, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered impaired and the second step of the test is not necessary. The second step of the impairment test is used to measure the amount of the impairment loss and compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

Subsequent to the preparation of our annual impairment test, as a result of changes to the estimated market value of our microwave communications equipment reporting unit that occurred during the fourth quarter, we determined it was necessary to evaluate the recoverability of the carrying value of this segment as of December 27, 2014. For this analysis we utilized the market approach as the primary valuation method. The market approach is one of the three methodologies (along with the income approach and asset approach) that are used to estimate enterprise and equity value. The market approach employs analysis using comparable transactions in determining the value of the entity. Both public and private companies, if publicly available information exists, are considered in the market approach. Two information points commonly available company valuation and transaction value are used for their respective methodologies. The three main methods utilized under the market approach are: The Guideline Public Company Method, The Guideline Transactions Method and The Backsolve Method.

Utilizing the results of the market approach analysis, we determined that the carrying value of our microwave communications equipment reporting unit exceeded its current fair market value and, as a result, we recorded a non-cash, pre-tax impairment charge of $5.0 million as of December 27, 2014. The asset impairments we recorded were comprised of $3.1 million of goodwill and $1.9 million of other assets.

Geographic Consolidation

In 2014 BMS substantially completed a geographic consolidation restructuring plan to relocate the manufacturing, engineering and administrative function of its German operation to its headquarters facility in Poway, California. In 2014 BMS recorded charges to operations totaling $0.5 million for severance and one-time termination benefits. These charges are included in cost of sales $0.1 million, research and development $0.2 million and selling, general and administrative expense $0.2 million. We anticipate that the remaining amounts accrued at December 27, 2014 will be settled in the first quarter of fiscal 2015.

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The following table reconciles amounts accrued and paid under the consolidation plan *(in thousands)*:

	Severance and Other Payroll
Balance, December 28, 2013	$
Costs accrued	524
Amounts paid or charged	(249)
Impact of currency exchange	(44)
Balance, December 27, 2014	$ 231

4. Strategic Technology Transactions, Goodwill and Purchased Intangible Assets

Acquisition of Ismeca

On December 31, 2012, we acquired all of the outstanding share capital of Ismeca Semiconductor Holding SA (Ismeca). Ismeca, headquartered in La Chaux-de-Fonds, Switzerland, and with major operations in Malacca, Malaysia and Suzhou, China, designs, manufactures and sells turret-based test handling and back-end finishing equipment for integrated circuits, light emitting diodes (LEDs) and discrete components. The acquisition of Ismeca was a strategic transaction to expand our semiconductor total available market, extend our market leadership, expand our customer base, and broaden our product and technology offerings.

The purchase price of this acquisition was approximately $90.8 million, and was funded primarily by cash reserves ($57.1 million) and certain liabilities assumed ($33.7 million). Total consideration was allocated to the assets acquired and liabilities assumed based on their estimated respective fair values as of the completion of the acquisition. Amounts allocated to intangible assets are being amortized on a straight-line basis over their useful lives as noted below. The acquisition was nontaxable and certain of the assets acquired, including goodwill and intangibles, will generally not be deductible for tax purposes. Goodwill associated with the acquisition was primarily attributable to the opportunities from the addition of Ismeca s products and was assigned to our semiconductor equipment segment.

Changes in the carrying value of goodwill by reportable segment during the years ended December 27, 2014 and December 28, 2013 were as follows (*in thousands*):

	Semiconductor Equipment	Microwave Communications	Total Goodwill
Balance, December 29, 2012	$ 55,520	$ 3,236	$ 58,756
Additions net of adjustments	10,930		10,930
Impact of currency exchange	1,533	94	1,627
Balance, December 28, 2013	67,983	3,330	71,313
Impact of currency exchange	(4,851)	(275)	(5,126)
Impairment of goodwill - (See Note 3)		(3,055)	(3,055)

Balance, December 27, 2014	$ 63,132	$	$ 63,132

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

	December 27, 2014			December 28, 2013	
	Gross Carrying Amount	Accumulated Amortization	Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization
Rasco technology	$ 29,845	$ 22,616	2.0 years	$ 33,689	$ 21,319
Ismeca technology	27,014	6,879	6.0 years	29,915	3,809
Duma technology	864	864	0.0 years	864	408
	$ 57,723	$ 30,359		$ 64,468	$ 25,536

In connection with the impairment of our microwave communications equipment reporting unit we wrote off the remaining $0.2 million net book value of Duma technology as of December 27, 2014, this impairment is included in the accumulated amortization in the table above. The amounts included in the table above at December 27, 2014, exclude approximately $2.1 million and $3.6 million, related to the trade names of Rasco and Ismeca, respectively, and at December 28, 2013 exclude approximately $2.4 million and $4.0 million, respectively.

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These trade names have an indefinite life and are not being amortized. Changes in the carrying values of purchased intangible assets are a result of the impact of fluctuation in currency exchange rates.

Amortization expense related to purchased intangible assets was approximately $8.1 million in both 2014 and 2013 and $4.1 million in 2012. As of December 27, 2014, we expect amortization expense in future periods to be as follows: 2015 - $7.2 million; 2016 - $6.8 million; 2017 - $3.3 million; 2018 - $3.3 million 2019 - $3.3 million; and thereafter $3.4 million.

5. Cash, Cash Equivalents and Short-term Investments

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.

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

	At December 27, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal securities	$ 155	$	$	$ 155
Bank certificates of deposit	1,000			1,000
	$ 1,155	$	$	$ 1,155

	At December 28, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Municipal securities	$ 1,200	$	$	$ 1,200

Effective maturities of short-term investments at December 27, 2014, were as follows:

(in thousands)	Amortized Cost	Estimated Fair Value

Due in one year or less	$ 1,155	$ 1,155

Our municipal securities include variable rate demand notes which can be put (sold at par) typically on a daily basis with settlement periods ranging from the same day to one week and have varying contractual maturities through 2034. These securities can be used for short-term liquidity needs and are held for limited periods of time. At December 27, 2014 these securities had amortized cost and fair value of $0.2 million and are included in Due in one year or less in the table above**.**

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.

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The following table summarizes, by major security type, our assets 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 27, 2014 using:			
	Level 1	Level 2	Level 3	Total estimated fair value
Cash	$ 66,467	$	$	$ 66,467
Municipal securities		155		155
Money market funds		4,418		4,418
Bank certificates of deposit		1,000		1,000
	$ 66,467	$ 5,573	$	$ 72,040

	Fair value measurements at December 28, 2013 using:			
	Level 1	Level 2	Level 3	Total estimated fair value
Cash	$ 44,165	$	$	$ 44,165
Municipal securities		1,200		1,200
Money market funds		7,503		7,503
	$ 44,165	$ 8,703	$	$ 52,868

6. Employee Benefit Plans

Defined Contribution Retirement Plans We have a voluntary defined contribution retirement 401(k) plan whereby we match employee contributions. In 2012 and 2013 we provided a matching contribution at 1.5% and made contributions to the plan of approximately $0.4 million in both periods. In 2014 we increased our matching contribution to 3% and made contributions to the plan of approximately $0.8 million.

Defined Benefit Retirement Plans We maintain 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 at both December 27, 2014 and December 28, 2013. 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 relates to the Swiss Plan for the years ended December 27, 2014 and December 28, 2013.

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

(in thousands)	2014	2013
Service cost	$ 749	$ 841
Interest cost	491	398
Expected return on assets	(343)	(267)

Net periodic costs	$ 897	$ 972

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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:

(in thousands)	2014	2013
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ (23,850)	$ (23,541)
Service cost	(749)	(841)
Interest cost	(491)	(398)
Actuarial gain (loss)	(3,649)	1,538
Participant contributions	(728)	(751)
Benefits paid	998	704
Foreign currency exchange adjustment	2,442	(561)
Benefit obligation at end of year	(26,027)	(23,850)
Change in plan assets:		
Fair value of plan assets at beginning of year	16,083	15,236
Return on assets, net of actuarial loss	652	(338)
Employer contributions	728	751
Participant contributions	728	751
Benefits paid	(998)	(704)
Foreign currency exchange adjustment	(1,590)	387
Fair value of plan assets at end of year	15,603	16,083
Net liability at December 27, 2014	$ (10,424)	$ (7,767)

At December 27, 2014 and December 28, 2013, the Swiss Plan was underfunded and the related net liability is included in noncurrent accrued retirement benefits. Amounts recognized in accumulated other comprehensive income at December 27, 2014 related to the Swiss Plan consisted of an unrecognized net actuarial loss totaling $2.4 million compared to a net gain totaling $1.0 million at December 28, 2013.

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

	2014	2013
Discount rate	1.3%	2.3%
Compensation increase	1.8%	2.0%

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

	2014	2013
Discount rate	2.3%	1.8%
Rate of return on Assets	2.3%	1.8%

Compensation increase	2.0%	2.0%

During 2015 employer and employee respective contributions to the Swiss Plan are expected to total $0.7 million. Estimated benefit payments are expected to be as follows: 2015 - $0.7 million; 2016 - $0.7 million; 2017 - $0.7 million; 2018 - $0.7 million; 2019 - $0.8 million; and $5.5 million thereafter through 2024.

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 76% debt securities, 11% real estate investments, 9% alternative investments, 3% cash and 1% equity securities. All assets of the plan fall within Level 2 of the fair value hierarchy. See Note 5 for a description of the levels of inputs used to determine fair value measurement.

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Retiree Medical Benefits We provide post-retirement health benefits to certain executives and directors under a noncontributory plan. The net periodic benefit income was $0.1 million in 2014 compared to a net periodic benefit cost of $0.1 million and $0.3 million in 2013 and 2012, respectively. 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 3.8% in 2014, 4.6% in 2013 and 3.7% in 2012. Annual rates of increase of the cost of health benefits were assumed to be 8.0% in 2015. These rates were then assumed to decrease 0.5% per year to 5.0% in 2021 and remain level thereafter. A one percent increase (decrease) in health care cost trend rates would increase (decrease) the 2014 net periodic benefit cost by approximately $14,000 ($11,000) and the accumulated post-retirement benefit obligation as of December 27, 2014, by approximately $363,000 ($297,000).

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

(in thousands)	2014	2013
Accumulated benefit obligation at beginning of year	$ 2,021	$ 2,366
Service cost	13	15
Interest cost	91	86
Actuarial (gain) loss	370	(386)
Benefits paid	(67)	(60)
Accumulated benefit obligation at end of year	2,428	2,021
Plan assets at end of year		
Funded status	$ (2,428)	$ (2,021)

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 27, 2014 and December 28, 2013, the payroll liability to participants, included in accrued compensation and benefits in the consolidated balance sheet, was approximately $2.6 million and $2.4 million and the cash surrender value of the related life insurance policies included in other current assets was approximately $2.3 million and $2.1 million, respectively.

Employee Stock Purchase Plan The Cohu, Inc. 1997 Employee Stock Purchase Plan (the Plan) provides for the issuance of a maximum of 1,900,000 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. In 2014, 2013, and 2012, 138,831, 163,120 and 151,812 shares, respectively, were issued under the Plan. At December 27, 2014, there were 183,591 shares reserved for issuance under the Plan.

Stock Options Under our equity incentive plans, 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. At December 27, 2014, 992,666 shares were available for future equity grants under the Cohu, Inc. 2005 Equity Incentive Plan. We have historically issued new shares of Cohu common stock upon share option exercise.

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

	2014		2013		2012	
(in thousands, except per share data)	Shares	Wt. Avg. Ex. Price	Shares	Wt. Avg. Ex. Price	Shares	Wt. Avg. Ex. Price
Outstanding, beginning of year	3,086	$ 11.93	3,113	$ 12.62	3,112	$ 13.01
Granted	10	$ 12.58	470	$ 9.83	437	$ 10.50
Exercised	(237)	$ 8.43	(117)	$ 7.55	(73)	$ 8.26