COHU INC
Form 10-Q
November 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 26, 2015

OR

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

Commission file number 001-04298

COHU, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer 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

As of September 26, 2015 the Registrant had 26,128,118 shares of its $1.00 par value common stock outstanding.

COHU, INC.

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FORM 10-Q

SEPTEMBER 26, 2015

Item 1.
COHU, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)

	September 26, 2015 (Unaudited)	December 27, 2014 *
ASSETS		
Current assets:		
Cash and cash equivalents	$ 89,260	$ 70,885
Short-term investments	1,467	1,155
Accounts receivable, net	56,020	70,490
Inventories:		
Raw materials and purchased parts	25,465	26,239
Work in process	18,105	19,044
Finished goods	7,300	3,917
	50,870	49,200
Refundable income taxes	157	1,012
Deferred income taxes	3,254	4,406
Other current assets	5,667	7,351
Current assets of discontinued operations (Note 2)	-	10,318
Total current assets	206,695	214,817
Property, plant and equipment, at cost:		
Land and land improvements	11,442	11,762
Buildings and building improvements	31,169	31,065
Machinery and equipment	30,705	32,356
	73,316	75,183
Less accumulated depreciation and amortization	(41,372)	(43,329)
Net property, plant and equipment	31,944	31,854
Goodwill	60,860	63,132
Intangible assets, net	27,367	33,087
Other assets	5,620	5,928
	$ 332,486	$ 348,818
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 25,848	$ 25,119
Accrued compensation and benefits	16,502	18,687
Accrued warranty	3,991	4,846
Deferred profit	5,732	6,941
Income taxes payable	4,960	3,133
Other accrued liabilities	6,134	6,969

Current liabilities of discontinued operations (Note 2)	-	2,783
Total current liabilities	63,167	68,478
Accrued retirement benefits	14,793	13,180
Deferred income taxes	9,793	11,062
Noncurrent income tax liabilities	6,542	7,321
Other accrued liabilities	1,865	1,003
Noncurrent liabilities of discontinued operations (Note 2)	-	706
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, 26,128 shares issued and outstanding in 2015 and 25,692 shares in 2014	26,128	25,692
Paid-in capital	102,922	97,938
Retained earnings	127,777	134,152
Accumulated other comprehensive loss	(20,501)	(10,714)
Total stockholders' equity	236,326	247,068
	$ 332,486	$ 348,818

* Derived from December 27, 2014 audited financial statements

The accompanying notes are an integral part of these statements.

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

	Three Months Ended		Nine Months Ended	
	September 26, 2015	**September 27, 2014**	**September 26, 2015**	**September 27, 2014**
Net sales	$67,512	$ 91,573	$206,170	$ 226,042
Cost and expenses:				
Cost of sales	44,718	58,621	137,529	148,797
Research and development	8,605	8,587	24,901	26,935
Selling, general and administrative	11,923	12,358	38,006	38,218
	65,246	79,566	200,436	213,950
Income from operations	2,266	12,007	5,734	12,092
Interest and other, net	9	6	19	25
Income from continuing operations before taxes	2,275	12,013	5,753	12,117
Income tax provision	940	2,001	2,251	2,612
Income from continuing operations	1,335	10,012	3,502	9,505
Loss from discontinued operations, net of tax (Note 2)	(222)	(2,493)	(5,201)	(1,171)
Net income (loss)	$1,113	$ 7,519	$(1,699)	$ 8,334
Income (loss) per share:				
Basic:				
Income from continuing operations	$0.05	$ 0.39	$0.13	$ 0.38
Loss from discontinued operations	(0.01)	(0.09)	(0.20)	(0.05)
Net income (loss)	$0.04	$ 0.30	$(0.07)	$ 0.33
Diluted:				
Income from continuing operations	$0.05	$ 0.38	$0.13	$ 0.37
Loss from discontinued operations	(0.01)	(0.09)	(0.19)	(0.05)
Net income (loss)	$0.04	$ 0.29	$(0.06)	$ 0.32
Weighted average shares used in computing Income (loss) per share:				
Basic	26,175	25,481	25,995	25,309
Diluted	26,796	26,174	26,679	25,698
Cash dividends declared per share	$0.06	$ 0.06	$0.18	$ 0.18

The accompanying notes are an integral part of these statements.

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

	Three Months Ended		Nine Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Net income (loss)	$1,113	$ 7,519	$(1,699)	$ 8,334
Other comprehensive loss, net of tax				
Foreign currency translation adjustments	(4,221)	(8,537)	(9,754)	(8,632)
Adjustments related to postretirement benefits	99	(92)	(33)	(172)
Other comprehensive loss, net of tax	(4,122)	(8,629)	(9,787)	(8,804)
Comprehensive loss	$(3,009)	$ (1,110)	$(11,486)	$ (470)

The accompanying notes are an integral part of these statements.

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

	Nine Months Ended September 26, 2015			September 27, 2014		
Cash flows from operating activities:						
Net income (loss)	$	(1,699	)	$	8,334	
Reconciliation of net income (loss) to net cash provided by operating activities:						
Loss on disposal of microwave communications equipment business		3,232			-	
Gain on disposal of video camera segment		-			(4,133	)
Operating cash flows of discontinued operations		(1,039	)		3,377	
Depreciation and amortization		8,533			9,659	
Share-based compensation expense		5,081			4,633	
Deferred income taxes		(1,086	)		(1,306	)
Asset impairment charge		279			-	
Other accrued liabilities		1,624			(268	)
Changes in other assets		(522	)		-	
Changes in current assets and liabilities, excluding effects from divestitures:						
Accounts receivable		12,860			(30,593	)
Inventories		(5,273	)		(6,860	)
Other current assets		2,891			340	
Accounts payable		2,219			8,642	
Deferred profit		(1,127	)		5,689	
Income taxes payable, including excess stock option exercise benefit		1,804			1,168	
Accrued compensation, warranty and other liabilities		(3,217	)		6,337	
Net cash provided by operating activities		24,560			5,019	
Cash flows from investing activities, excluding effects from divestitures:						
Cash received from sale of microwave communications equipment business		5,339			-	
Cash received from sale of video camera business		-			9,886	
Purchases of short-term investments		(453	)		-	
Purchases of property, plant and equipment		(3,687	)		(1,226	)
Sales and maturities of short-term investments		155			45	
Changes in other assets		-			(62	)
Investing cash flows of discontinued operations		(74	)		(21	)
Net cash provided by investing activities		1,280			8,622	

Cash flows from financing activities:						
Cash dividends paid		(4,648	)		(4,535	)
Issuance of stock, net of repurchases		201			1,222	
Net cash used in financing activities		(4,447	)		(3,313	)
Effect of exchange rate changes on cash and cash equivalents		(3,018	)		(1,418	)
Net increase in cash and cash equivalents		18,375			8,910	
Cash and cash equivalents at beginning of period		70,885			51,668	
Cash and cash equivalents at end of period	$	89,260		$	60,578	
Supplemental disclosure of cash flow information:						
Cash paid (refunded) for income taxes	$	(414	)	$	976	
Inventory capitalized as property, plant and equipment	$	220		$	1,059	
Dividends declared but not yet paid	$	1,567		$	1,532	
Facility capitalized under build-to-suit lease	$	682		$	-	

The accompanying notes are an integral part of these statements.

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Cohu, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Basis of Presentation

Our fiscal years are based on a 52- or 53-week period ending on the last Saturday in December. The condensed consolidated balance sheet at December 27, 2014 has been derived from our audited financial statements at that date. The interim condensed consolidated financial statements as of September 26, 2015 (also referred to as "the third quarter of fiscal 2015" and "the first nine months of fiscal 2015") and September 27, 2014 (also referred to as "the third quarter of fiscal 2014" and "the first nine months of fiscal 2014") are unaudited. However, in management's opinion, these financial statements reflect all adjustments (consisting only of normal, recurring items) necessary to provide a fair presentation of our financial position, results of operations and cash flows for the periods presented. The nine-month periods ended September 26, 2015 and September 27, 2014 were each comprised of 13 and 39 weeks, respectively.

Our interim results are not necessarily indicative of the results that should be expected for the full year. For a better understanding of Cohu, Inc. and our financial statements, we recommend reading these interim condensed consolidated financial statements in conjunction with our audited financial statements for the year ended December 27, 2014, which are included in our 2014 Annual Report on Form 10-K, filed with the U. S. Securities and Exchange Commission ("SEC"). In the following notes to our interim condensed consolidated financial statements, Cohu, Inc. is referred to as "Cohu", "we", "our" and "us".

Certain prior-period amounts in our condensed consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications have no effect on previously reported net income.

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 Item 1A. "Risk Factors" included in this Form 10-Q. Understanding these risks and uncertainties is integral to the review of our interim condensed consolidated financial statements.

Discontinued Operations

On June 10, 2015, we sold all of the outstanding stock of our mobile microwave communications equipment business, Broadcast Microwave Services, Inc. (“BMS”) and on June 6, 2014, we completed the sale of our video camera business, Cohu Electronics. The operating results of BMS and Cohu Electronics are being presented as discontinued operations and all prior period amounts have been reclassified accordingly. See Note 2, “Discontinued Operations” for additional information. Unless otherwise indicated, all amounts herein relate to continuing operations.

Concentration of Credit Risk

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

Trade accounts receivable are presented net of allowance for doubtful accounts of $0.1 million and $0.2 million at September 26, 2015 and December 27, 2014, respectively. Our customers include semiconductor manufacturers and semiconductor test subcontractors throughout many areas of the world. While we believe that our allowance for doubtful accounts is adequate and represents our best estimate at September 26, 2015, we will continue to monitor customer liquidity and other economic conditions, which may result in changes to our estimates regarding collectability.

Goodwill, Other Intangible Assets and Long-lived Assets

We evaluate goodwill for impairment annually and when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting 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.

Cohu, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

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 value of our reporting unit exceeded its carrying values by approximately 35%.

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 asset's carrying amount and estimated fair value.

Foreign Currency Translation

Assets and liabilities of our wholly owned foreign 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 the three- and nine-month periods ended September 26, 2015, we recognized approximately $1.5 million and $1.1 million of foreign exchange gains in our consolidated statement of operations, respectively. During the three- and nine-month periods ended September 27, 2014, we recognized approximately $1.0 million and $0.9 million of foreign exchange gains in our consolidated statement of operations, respectively. Cumulative translation adjustments resulting from the translation of the financial statements are included as a separate component of stockholders' equity.

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.

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

	Three Months Ended		Nine Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Cost of sales	$100	$ 85	$413	$ 350
Research and development	256	453	841	1,364
Selling, general and administrative	1,281	1,047	3,827	2,919
Total share-based compensation	1,637	1,585	5,081	4,633
Income tax benefit	(70)	(60)	(181)	(157)
Total share-based compensation, net	$1,567	$ 1,525	$4,900	$ 4,476

Income (Loss) Per Share

Basic income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the reporting period. Diluted income (loss) per share includes the dilutive effect of common shares potentially issuable upon the exercise of stock options, vesting of outstanding restricted stock units and issuance of stock under our employee stock purchase plan using the treasury stock method. In loss periods, potentially dilutive securities are excluded from the per share computations due to their anti-dilutive effect. For purposes of computing diluted income (loss) per share, stock options with exercise prices that exceed the average fair market value of our common stock for the period are excluded. For the three and nine months ended September 26, 2015, options to issue approximately 857,000 and 912,000 shares of common stock were excluded from the computation, respectively. For the three and nine months ended September 27, 2014, options to issue approximately 1,346,000 and 1,953,000 shares of common stock were excluded from the computation, respectively.

Cohu, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended		Nine Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Weighted average common shares	26,175	25,481	25,995	25,309
Effect of dilutive stock options	621	693	684	389
	26,796	26,174	26,679	25,698

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

Revenue Recognition

Our revenue recognition policy is disclosed in Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 27, 2014. As more fully described in that policy, revenue from products that have not previously satisfied customer acceptance requirements is recognized upon customer acceptance. The gross profit on sales that are not recognized is generally recorded as deferred profit and reflected as a current liability in our consolidated balance sheet.

At September 26, 2015, we had deferred revenue totaling approximately $8.6 million and deferred profit of $5.7 million. At December 27, 2014, we had deferred revenue totaling approximately $10.7 million and deferred profit of $6.9 million. The periodic increase is primarily a result of deferrals of revenue associated with product shipments made to our customers in accordance with our revenue recognition policy.

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

	Three Months Ended		Nine Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Customers individually accounting for more than 10% of net sales	two	two	one	two
Percentage of net sales	29%	26%	17%	27%

Comprehensive Loss

Our accumulated other comprehensive loss balance totaled approximately $20.5 million and $10.7 million at September 26, 2015 and December 27, 2014, respectively, and was attributed to all non-owner changes in stockholders' equity and consists of, on an after-tax basis where applicable, foreign currency adjustments resulting from the translation of certain of our subsidiary accounts where the functional currency is not the U.S. Dollar and adjustments related to postretirement benefits. Reclassification adjustments from accumulated other comprehensive income during the first nine months of fiscal 2015 and 2014 were not significant.

Retiree Medical Benefits

We provide post-retirement health benefits to certain executives and directors under a noncontributory plan. The net periodic benefit cost incurred during the first nine months of fiscal 2015 and 2014 was not significant.

Cohu, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Recent Accounting Pronouncements

Recently Issued Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board (“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. In April 2015, the FASB agreed to propose a one-year deferral of the revenue recognition standard's effective date for all entities, which would change the effectiveness to annual reporting periods beginning after December 15, 2017, with the option to adopt as early as December 15, 2016. We are currently evaluating the impact of the new guidance on our financial statements and have not yet determined which transition method we will utilize upon adoption or the potential impact of this new guidance on our consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update (ASU) 2014-15, “Presentation of Financial Statements - Going Concern, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”. This standard sets forth management’s responsibility to evaluate, each reporting period, whether there is substantial doubt about an entity’s ability to continue as a going concern, and if so, to provide related footnote disclosures. The standard is effective for annual reporting periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. The Company does not believe that the adoption of this guidance will have any material impact on its financial position or results of operations.

In April 2015, the FASB issued ASU 2015-04, “Compensation - Retirement Benefits (Subtopic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets.” This update provides a practical expedient that permits a company to measure defined benefit plan assets and obligations using the month-end date that is closest to the company's fiscal year-end and apply that practical expedient consistently from year to year. The practical expedient should be applied consistently to all plans if the company has more than one plan. This ASU is effective prospectively for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11 “Simplifying the Measurement of Inventory” (ASU 2015-11). ASU 2015-11 simplifies the guidance on the subsequent measurement of inventory, excluding inventory measured using last-in, first out or the retail inventory method. Under the new standard, in scope inventory should be measured at the lower of cost and net realizable value. The new standard is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. We are evaluating the impact of the new standard on our consolidated financial statements and our timing for adoption.

In September 2015, the FASB issued ASU 2015-16 “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments” (ASU 2015-16). ASU 2015-16 requires an entity to: recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined; record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date; and present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The new standard is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted for financial statements that have not been issued. We do not expect the new standard to have a significant impact on our consolidated financial statements upon adoption.

Cohu, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

2. Discontinued Operations

In June 2015, we sold all of the outstanding stock of BMS for $8.0 million, comprised of a $5.5 million in cash and up to $2.5 million of contingent consideration. The sales price is subject to a working capital adjustment and, as a result, adjustments to the loss from sale reported below are possible. In June 2014, we sold substantially all the assets of our video camera business, Cohu Electronics for $9.5 million in cash and $0.5 million in contingent consideration. Our decision to sell these two non-core businesses resulted from management's determination that they were no longer a strategic fit within our organization.

As part of the divestiture of BMS we recorded a long-term contingent consideration receivable that has been classified as Level 3 in the fair value hierarchy. See Note 4, "Financial Instruments Measured at Fair Value" for additional information on the three-tier fair value hierarchy. The contingent consideration represents the estimated fair value of future payments we are due based on BMS achieving annual revenue targets in certain years as specified in the sale agreement. We determined the initial value of the contingent consideration by using the Monte Carlo simulation model and any future changes to the fair value of the contingent consideration will be recognized in earnings.

Balance sheet information for BMS presented as discontinued operations is summarized as follows *(in thousands)*:

	December 27, 2014
Assets:	
Accounts receivable, net	$ 3,156
Inventories	6,345
Other current assets	817
Total assets	$ 10,318
Liabilities:	
Deferred Profit	$ 504
Other accrued current liabilities	2,279
Total current liabilities	2,783
Noncurrent liabilities	706
Total liabilities	$ 3,489

Operating results of our discontinued operations is summarized as follows *(in thousands)*:

	Three Months Ended		Nine Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Net sales:				
Mobile microwave equipment segment	$ -	$ 2,868	$ 6,965	$ 11,113
Video camera segment	-	-	-	5,460
	$ -	$ 2,868	$ 6,965	$ 16,573
Operating loss before income taxes:				
Mobile microwave equipment segment	-	(2,598)	(1,963)	(5,062)
Video camera segment	-	-	-	(242)
	-	(2,598)	(1,963)	(5,304)
Loss from sale of BMS	(222)	-	(3,232)	-
Gain from sale of Cohu Electronics	-	-	-	4,133
Loss before taxes	(222)	(2,598)	(5,195)	(1,171)
Income tax provision	-	(105)	6	-
Loss, net of tax	$ (222)	$ (2,493)	$ (5,201)	$ (1,171)

Cohu, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

During the third quarter of 2015, we recognized $0.2 million in additional loss from the disposal of BMS resulting from current period adjustments to contingent consideration and working capital as referenced above. We are still working to finalize the final working capital adjustment and additional adjustments may be required.

In connection with the disposal of our two business segments we incurred divestiture-related costs that would not have been incurred otherwise. These costs consist of legal and investment banking advisory services, success based compensation arrangements and certain other items that are incremental to normal operating charges and were expensed as incurred. These costs are included in the gain (loss) from sale amounts presented above. Divestiture-related costs associated with the sale of BMS incurred in the first six months of 2015 totaled $1.0 million and similar costs associated with the sale of Cohu Electronics incurred in the first six months of 2014 totaled $0.8 million. There were no divestiture-related costs incurred during the third quarter of 2015 or 2014.

3. Goodwill and Other Purchased Intangible Assets

Changes in the carrying value of goodwill during the year ended December 27, 2014 and the nine-month period ended September 26, 2015 were as follows (*in thousands*):

	Goodwill
Balance, December 28, 2013	$ 67,983
Impact of currency exchange	(4,851)
Balance, December 27, 2014	63,132
Impact of currency exchange	(2,272)
Balance, September 26, 2015	$ 60,860

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

	September 26, 2015			December 27, 2014	
	Gross Carrying Amount	Accumulated Amortization	Remaining Useful Life (years)	Gross Carrying Amount	Accumulated Amortization
Rasco technology	$27,435	$ 23,388	1.3	$29,845	$ 22,616

Ismeca technology	27,248	9,540	5.3	27,014	6,879
	$54,683	$ 32,928		$56,859	$ 29,495

Amortization expense related to intangible assets was approximately $1.7 million in the third quarter of fiscal 2015 and $5.3 million in the first nine months of fiscal 2015. Amortization expense related to intangible assets was approximately $2.0 million in the third quarter of fiscal 2014 and $6.0 million in the first nine months of fiscal 2014. The amounts included in the table above for the period ended September 26, 2015 exclude approximately $1.9 million and $3.7 million, for trade names of Rasco and Ismeca, respectively. For the period ended December 27, 2014 these amounts were approximately $2.1 million and $3.6 million for Rasco and Ismeca, respectively. Changes in the carrying values of these intangible assets are a result of the impact of fluctuations in currency exchange rates.

Previously, it has been our determination that the Rasco and Ismeca trade names had an indefinite life. On September 24, 2015, we introduced a rebranding initiative and unveiled a new "Cohu" logo. The primary goal of the change was to improve the cohesiveness of our organization and come to the market as one brand.

We review the assessment of indefinite life for our trade names each period to determine whether the indefinite life assumption continues to be supportable. If it is deemed unsupportable the change in useful life from indefinite to finite is made and amortization is recognized on a prospective basis. As a result of the rebranding initiative, we determined that the classification of the useful life of our trade names as indefinite was no longer appropriate based on our expectations of the future period over which they will provide economic benefit to Cohu. When an intangible asset that is not being amortized is subsequently determined to have a finite useful life there is a requirement for the asset to be tested for impairment in accordance with ASC 350, "Intangibles - Goodwill and Other". We have completed an interim impairment assessment that indicates the fair value of the Rasco and Ismeca trade names, as of September 24, 2015, exceed their carrying values by 4% and 17%, respectively.

Cohu, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

We believe the assumptions used in the interim impairment analysis are reasonable. However, the analysis is sensitive to adverse changes in the assumptions used in the valuations. In particular, changes in the projected cash flows, discount rates, royalty rates and other market based assumptions could produce significantly different results for the impairment analysis which could result in future impairment charges.

4. Financial Instruments Measured at Fair Value

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

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

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

	September 26, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Foreign government security	$465	$ -	$ -	$ 465
Bank certificates of deposit	1,002	-	-	1,002
	$1,467	$ -	$ -	$ 1,467

	December 27, 2014			
		Gross	Gross	Estimated

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Municipal securities	$155	$ -	$ -	$ 155
Bank certificates of deposit	1,000	-	-	1,000
	$1,155	$ -	$ -	$ 1,155

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

	September 26, 2015		December 27, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$1,467	$ 1,467	$1,155	$ 1,155

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

Cohu, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

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

	Fair value measurements at September 26, 2015 using:			
	Level 1	Level 2	Level 3	Total estimated fair value
Cash	$84,642	$-	$ -	$ 84,642
Money market funds	-	4,618	-	4,618
Bank certificates of deposit	-	1,002	-	1,002
Foreign government security	-	465	-	465
	$84,642	$6,085	$ -	$ 90,727

	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

5. Employee Stock Benefit Plans

Our 2005 Equity Incentive Plan (the “2005 Plan”) is a broad-based, long-term retention program intended to attract, motivate, and retain talented employees as well as align stockholder and employee interests. Awards that may be granted under the program include, but are not limited to, non-qualified and incentive stock options, restricted stock units, and performance-based stock units. We settle employee stock option exercises, employee stock purchase plan purchases, and the vesting of restricted stock units, and performance-based stock units with newly issued common shares. On May 12, 2015, our stockholders approved an amendment to the 2005 Plan which increased the number of shares that may be issued under the 2005 Plan by 1,500,000 shares. Subsequent to this amendment, at September 26, 2015, there were 2,257,363 shares available for future equity grants under the 2005 Equity Incentive Plan.

Stock Options

Stock options may be granted to employees, consultants and directors to purchase a fixed number of shares of our common stock. The exercise prices of options granted are at least equal to the fair market value of our common stock on the dates of grant and options generally vest and become exercisable after one year or in four annual increments beginning one year after the date of grant. Stock options granted under the program have a maximum contractual term of ten years.

At September 26, 2015, we had 2,031,539 stock options outstanding. These options had a weighted-average exercise price of $11.20 per share, an aggregate intrinsic value of approximately $1.3 million and the weighted average remaining contractual term was approximately 4.7 years.

At September 26, 2015, we had 1,720,111 stock options outstanding that were exercisable. These options had a weighted-average exercise price of $11.43 per share, an aggregate intrinsic value of $1.2 million and the weighted average remaining contractual term was approximately 4.2 years.

Restricted Stock Units

We issue restricted stock units to certain employees, consultants and directors. Restricted stock units vest over either a one-year or a four-year period from the date of grant. Prior to vesting, restricted stock units do not have dividend equivalent rights, do not have voting rights and the shares underlying the restricted stock units are not considered issued and outstanding.

In the nine months ended September 26, 2015, we awarded restricted stock units covering 482,101 shares of our common stock to employees and at September 26, 2015, we had 1,097,429 restricted stock units outstanding with an aggregate intrinsic value of approximately $10.6 million and the weighted average remaining vesting period was approximately 1.4 years.

Cohu, Inc.

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Equity-Based Performance Stock Units

In March 2012, we began granting equity-based performance units covering shares of our common stock to certain employees. The number of shares of stock ultimately issued will depend upon the extent to which certain financial performance goals set by our Board of Directors are met during the one-year award measurement period. Based upon the level of achievement of performance goals the number of shares we ultimately issue can range from 0% up to 150% of the number of shares under each grant which vest over 3 years from the date of initial grant. In 2014, we began awarding equity-based performance stock units to senior executives with vesting that is contingent on the level of achievement of certain performance goals, market return and continued service ("market-based PSUs") and in 2015, the market-based PSUs granted are only subject to certain adjustments resulting from performance of Cohu's Relative Total Shareholder Return ("TSR") to a selected peer group over a two-year measurement period following the date of grant based on the percentage by which our TSR exceeds or falls below the selected peer group. Market-based PSUs earned will vest at the rate of 50% on the second and third anniversary of their grant. We estimated the fair value of market-based PSUs using a Monte Carlo simulation model on the date of grant. Compensation expense is recognized ratably over the measurement period of each vesting tranche based on our current assessment of achievement of the performance goals. New shares of our common stock will be issued on the date the equity-based performance units vest.

In the nine months ended September 26, 2015, we awarded 156,370 market-based performance stock units to senior executives, and at September 26, 2015, we had 376,374 PSUs and market based PSUs outstanding with an aggregate intrinsic value of approximately $3.6 million and the weighted average remaining vesting period was approximately 1.3 years.

Employee Stock Purchase Plan (ESPP)

The Cohu, Inc. 1997 Employee Stock Purchase Plan ("the Plan") provides for the issuance of shares of our common stock. Under the Plan, eligible employees may purchase shares of Cohu common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value of Cohu common stock at the beginning or end of each 6-month purchase period, subject to certain limits. On May 12, 2015 our stockholders approved an amendment to the Plan which increased the number of shares that may be issued under the Plan by 750,000 shares. During the three-month period ended September 26, 2015, no shares of our common stock were sold to our employees under the Plan leaving 864,321 shares available for future issuance.

6. Income Taxes

Ordinarily, interim tax provisions are calculated using the estimated effective tax rate (“ETR”) expected to be applicable for the full fiscal year. However, when a reliable estimate of the annual ETR cannot be made, the actual ETR for the year-to-date period may be the best estimate of the annual ETR. For the three and nine months ended September 26, 2015 and September 27, 2014, we used the actual year-to-date ETR in computing our tax provision, as a reliable estimate of the annual ETR cannot be made, since relatively small changes in our projected income produce a significant variation in our ETR. The actual year-to-date ETR on income from continuing operations for the three months ended September 26, 2015 and September 27, 2014, was 41.3% and 16.7%, respectively, and for the nine months ended September 26, 2015 and September 27, 2014 was 39.1% and 21.6%, respectively. The tax provision on income from continuing operations in 2015 and 2014 differs from the U.S. federal statutory rate primarily due to the lack of a provision (benefit) on our domestic income (losses) as a result of our valuation allowance on deferred tax assets, foreign income taxed at lower rates, changes in our deferred tax asset valuation allowance, state taxes and interest related to unrecognized tax benefits.

Other than for foreign currency exchange rate changes, there was no material change to our unrecognized tax benefits and interest accrued related to unrecognized tax benefits during the three or nine month periods ended September 26, 2015 and September 27, 2014.

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Notes to Unaudited Condensed Consolidated Financial Statements

7. Contingencies

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

8. Guarantees and Other Obligations

Product Warranty

Our products are generally sold with warranty periods that range from 12 to 36 months following sale or acceptance. Parts and labor are covered under the terms of the warranty agreement. The warranty provision is based on historical and projected experience by product and configuration. Changes in accrued warranty were as follows (*in thousands*):

	Three Months Ended		Nine Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Balance at beginning of period	$5,212	$ 4,244	$5,848	$ 4,673
Warranty expense accruals	1,867	1,590	5,062	3,832
Warranty payments	(1,905)	(1,152)	(5,736)	(3,823)
Balance at end of period	$5,174	$ 4,682	$5,174	$ 4,682

Accrued warranty amounts expected to be incurred after one year are included in non-current other accrued liabilities in the condensed consolidated balance sheet. These amounts total $1.2 million at September 26, 2015 and $1.0 million at December 27, 2014. Prior-period long-term accrued warranty amounts have been reclassified to a long term liability in the December 31, 2014 balance sheet to conform to the current period presentation. This reclassification had no effect on previously reported net income and is considered immaterial.

Standby Letters of Credit

From time-to-time, during the ordinary course of business, we provide standby letters of credit for certain contingent liabilities under contractual arrangements, including customer contracts. As of September 26, 2015, the maximum potential amount of future payments that Cohu could be required to make under these standby letters of credit was approximately $0.2 million. We have not recorded any liability in connection with these guarantee arrangements beyond that required to appropriately account for the underlying transaction being guaranteed. We do not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these arrangements.

9. Facility Sale

On September 21, 2015, we entered into an agreement and opened escrow for the sale of our headquarters facility located in Poway, California (the "Poway Facility") for $34.3 million. The transaction is subject to completion of customary closing conditions and is expected to be completed in the fourth quarter of 2015.

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This Form 10-Q contains certain forward-looking statements including expectations of market conditions, challenges and plans, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the Safe Harbor provisions created by that statute. Such forward-looking statements are based on management’s current expectations and beliefs, including estimates and projections about our business and include, but are not limited to, statements concerning financial position, business strategy, and plans or objectives for future operations. Forward-looking statements are not guarantees of future performance, and are subject to certain risks, uncertainties, and assumptions that are difficult to predict and may cause actual results to differ materially from management’s current expectations. Such risks and uncertainties include those set forth in this Quarterly Report on Form 10-Q and our 2014 Annual Report on Form 10-K under the heading “Item 1A. Risk Factors”. The forward-looking statements in this report speak only as of the time they are made, and do not necessarily reflect management’s outlook at any other point in time. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or for any other reason, however, readers should carefully review the risk factors set forth in other reports or documents we file from time to time with the SEC after the date of this Quarterly Report.

OVERVIEW

Cohu is a leading supplier of semiconductor test and inspection handlers, micro-electro mechanical system (MEMS) test modules, test contactors and thermal sub-systems used by global semiconductor manufacturers and test subcontractors. Our business is significantly dependent on capital expenditures by semiconductor manufacturers and test subcontractors, which in turn is dependent on the current and anticipated market demand for semiconductors that is subject to cyclical trends. 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.

Orders for semiconductor test and assembly equipment as reported by Semiconductor Equipment and Materials International (SEMI) reached a plateau in April 2015 and the global demand for back-end equipment was down sequentially in the third quarter of 2015. We monitor back-end equipment utilization on our customers’ test floors and current back-end equipment utilization is below the level that typically triggers capacity additions. However, we are encouraged by what we consider to be relatively high levels of utilization at our integrated device manufacturer (IDM) customers. We believe the current slowdown is a momentary pause in the market as customers digest the significant test capacity added in 2014. Additionally, some customers are being cautious due to macro-economic environment uncertainty in Europe and China that impacts consumer confidence and spending. Despite the near term market softness, we remain 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. We are focused on working to gain market share and to expand into the adjacent test contactor and wafer level package (WLP) probing markets.

Application of Critical Accounting Estimates and Policies

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We base our estimates on historical experience, forecasts and on various other assumptions that are believed to be reasonable under the 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 or amortization; and
- the valuation and recognition of share-based compensation, which impacts gross margin, research and development expense, and selling, general and administrative expense.

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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.

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 September 26, 2015 was approximately $48.6 million, with a valuation allowance of approximately $42.5 million. Our deferred tax assets consist primarily of reserves and accruals that are not yet deductible for tax and tax credit and net operating loss carryforwards.

Goodwill, Other Intangible Assets and Long-lived Assets: We evaluate goodwill for impairment annually and when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting 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.

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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 value of our reporting unit exceeded its carrying values by approximately 35%.

Previously, it has been our determination that the Rasco and Ismeca trade names had an indefinite life. On September 24, 2015, we introduced a rebranding initiative and unveiled a new "Cohu" logo. The primary goal of the change was to improve the cohesiveness of our organization and come to the market as one brand. The Rasco and Ismeca trade names have value associated with their long established identities and reputation within the back-end test and assembly equipment market and continuing to utilize the value of these brand identities is an integral part of our strategy.

We review the assessment of indefinite life for our trade names each period to determine whether the indefinite life assumption continues to be supportable. If it is deemed unsupportable the change in useful life from indefinite to finite is made and amortization is recognized on a prospective basis. As a result of the rebranding initiative, we determined that the classification of the useful life of our trade names as indefinite was no longer appropriate based on our expectations of the future period over which they will provide economic benefit to Cohu. When an intangible asset that is not being amortized is subsequently determined to have a finite useful life there is a requirement for the asset to be tested for impairment in accordance with ASC 350, "Intangibles - Goodwill and Other". We have completed an interim impairment assessment that indicates the fair value of the Rasco and Ismeca trade names, as of September 24, 2015, exceed their carrying values by 4% and 17%, respectively.

We believe the assumptions used in the interim impairment analysis are reasonable. However, the analysis is sensitive to adverse changes in the assumptions used in the valuations. In particular, changes in the projected cash flows, discount rates, royalty rates and other market based assumptions could produce significantly different results for the impairment analysis which could result in future impairment charges.

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 asset's carrying amount and estimated fair value.

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

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

Share-based Compensation: Share-based compensation expense related to 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 I, Item 1 of this Form 10-Q.

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RESULTS OF OPERATIONS

In June 2015, we sold our mobile microwave communications equipment business and in June 2014, we sold our video camera business. The operating results of these businesses are being presented as discontinued operations and all prior period amounts have been reclassified. Unless otherwise indicated the discussion below covers the comparative results from continuing operations.

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

	Three Months Ended		Nine Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	(66.2)%	(64.0)%	(66.7)%	(65.8)%
Gross margin	33.8 %	36.0 %	33.3 %	34.2 %
Research and development	(12.7)%	(9.4)%	(12.1)%	(11.9)%
Selling, general and administrative	(17.7)%	(13.5)%	(18.4)%	(16.9)%
Income from operations	3.4 %	13.1 %	2.8 %	5.4 %

Third Quarter of Fiscal 2015 Compared to Third Quarter of Fiscal 2014

Net Sales

Our sales decreased 26.3% to $67.5 million in 2015, compared to net sales of $91.6 million in 2014. Global demand for back-end semiconductor test and assembly equipment is highly cyclical. In April 2015, global orders for back-end equipment reached a plateau and consistent with the broader market, our equipment sales were down year-over-year. We believe the slowdown in demand is a momentary pause in the market as our customers digest the significant test capacity added in 2014.

Gross Margin

Gross margin consists of net sales less cost of sales. Cost of sales consists primarily of the materials, assembly and test labor and overhead from operations. Our gross margin can fluctuate due to a number of factors, including, but not limited to, the mix of products sold, product support costs, increase to inventory reserves or the sale of previously reserved inventory and utilization of manufacturing capacity. Our gross margin, as a percentage of net sales, decreased to 33.8% in 2015 from 36.0% in 2014. Despite lower charges for excess and obsolete inventory in 2015, our gross margin decreased year-over-year as lower business volume did not allow us to generate the same operating leverage as 2014.

We compute the majority of our excess and obsolete inventory reserve requirements using a one-year inventory usage forecast. In the third quarter of 2015 we recorded charges to cost of sales of $0.7 million for excess and obsolete inventory. In the third quarter of 2014, we recorded charges of approximately $1.2 million. While we believe our reserves for excess and obsolete inventory and lower of cost or market concerns are adequate to cover known exposures at September 26, 2015, reductions in customer forecasts or continued modifications to products, as a result of our failure to meet specifications or other customer requirements, may result in additional charges to operations that could negatively impact our gross margin in future periods.

Research and Development Expense (“R&D Expense”)

R&D expense consists primarily of salaries and related costs of employees engaged in ongoing research, product design and development activities, costs of engineering materials and supplies and professional consulting expenses. R&D expense was $8.6 million in both 2015 and 2014 representing 12.7% and 9.4% of net sales, respectively. R&D costs increased as a percentage of net sales in 2015 as a result of lower sales.

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

SG&A expense consists primarily of salaries and benefit costs of employees, commission expense for independent sales representatives, product promotion and costs of professional services. SG&A expense was $11.9 million or 17.7% in 2015, compared to $12.4 million or 13.5% in 2014. In 2015, as a result of the strengthening of the U.S. Dollar primarily against the Swiss Franc and Malaysian Ringgit, we recorded $1.5 million of translation gains in the third quarter of 2015. During the corresponding period of 2014 the strengthening of the U.S. Dollar against the Euro and the Swiss Franc resulted in foreign currency translation gains of $1.0 million.

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Income Taxes

Ordinarily, interim tax provisions are calculated using the estimated effective tax rate ("ETR") expected to be applicable for the full fiscal year. However, when a reliable estimate of the annual ETR cannot be made, the actual ETR for the year-to-date period may be the best estimate of the annual ETR. For the three months ended September 26, 2015 and September 27, 2014 we used the actual year-to-date ETR in computing our tax provision, as a reliable estimate of the annual ETR cannot be made, since relatively small changes in our projected income produce a significant variation in our ETR. The actual year-to-date ETR on income from continuing operations for the three months ended September 26, 2015 and September 27, 2014, was 41.3% and 16.7%, respectively. The tax provision on income from continuing operations in 2015 and 2014 differs from the U.S. federal statutory rate primarily due to the lack of a provision (benefit) on our domestic income (losses) as a result of our valuation allowance on deferred tax assets, foreign income taxed at lower rates, changes in our deferred tax asset valuation allowance, state taxes and interest related to unrecognized tax benefits.

Other than for foreign currency exchange rate changes, there was no material change to our unrecognized tax benefits and interest accrued related to unrecognized tax benefits during the three months ended September 26, 2015.

Income from Continuing Operations and Net Income

As a result of the factors set forth above, our income from continuing operations was $1.3 million in 2015, compared to $10.0 million in 2014. Including the results of our discontinued mobile microwave communication equipment business, which included a loss on sale of $0.2 million, our net income in the third fiscal quarter of 2015 was $1.1 million. In 2014, which includes the results of both our discontinued businesses our net income was $7.5 million.

First Nine Months of Fiscal 2015 Compared to First Nine Months of Fiscal 2014

Net Sales

Our consolidated net sales decreased 8.8% to $206.2 million in 2015, compared to net sales of $226.0 million in 2014. Global market demand for back-end semiconductor test and assembly equipment is highly cyclical and after adding significant test capacity in 2014, consistent with the broader market, our sales of equipment declined year-over-year.

Gross Margin

Our gross margin, as a percentage of net sales, decreased to 33.3% in 2015 from 34.2% in 2014. Current year gross margin benefited from lower charges for excess and obsolete inventory and lower amortization of purchased intangibles but overall our gross margin in 2015 was lower as it was unfavorably impacted by lower business volume and product mix.

During the first nine months of fiscal 2015 and 2014 we recorded net charges to cost of sales of approximately $1.9 million and $3.5 million, respectively, for excess and obsolete inventory.

R&D Expense

R&D expense was $24.9 million or 12.1% of net sales in 2015, compared to $26.9 million or 11.9% in 2014. Lower R&D spending during the first nine months of 2015 resulted from the completion of certain development programs, as planned, and headcount reductions made in 2015.

SG&A Expense

SG&A expense was $38.0 million or 18.4% of net sales in 2015, compared to $38.2 million or 16.9% in 2014. SG&A expense in the first nine months of 2015 benefitted from the strengthening of the U.S. Dollar primarily against the Swiss Franc which resulted in the recognition of $1.1 million in foreign currency translation gains. The impact of foreign currency translation in the corresponding period of 2014 was a gain of $0.9 million. In 2015, we incurred $0.5 million of costs in connection with transitioning our manufacturing to Asia and employee severance. In the first nine months of 2014 we incurred $1.2 million of manufacturing transition and severance costs. The first nine months of 2015 includes the periodic recognition of an additional $0.9 million of employee share based compensation expense. This amount was driven primarily by the number of employee stock options and restricted and performance share awards subject to vesting during the period and the corresponding valuation established on the date of grant.

Income Taxes

For the nine months ended September 26, 2015 and September 27, 2014, we used the actual year-to-date ETR in computing our tax provision, as a reliable estimate of the annual ETR cannot be made, since relatively small changes in our projected income produce a significant variation in our ETR. The actual year-to-date ETR on income from continuing operations for the nine months ended September 26, 2015 and September 27, 2014, was 39.1% and 21.6%, respectively. The tax provision on income from continuing operations in 2015 and 2014 differs from the U.S. federal statutory rate primarily due to the lack of a provision (benefit) on our domestic income (losses) as a result of our valuation allowance on deferred tax assets, foreign income taxed at lower rates, changes in our deferred tax asset valuation allowance, state taxes and interest related to unrecognized tax benefits.

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Other than for foreign currency exchange rate changes, there was no material change to our unrecognized tax benefits and interest accrued related to unrecognized tax benefits during the nine months ended September 26, 2015.

Income from Continuing Operations and Net Income

As a result of the factors set forth above, our income from continuing operations was $3.5 million in 2015 compared to $9.5 million in 2014. Including the results of our discontinued mobile microwave communication equipment business, which included a loss on sale of $3.2 million, we generated a net loss of $1.7 million in 2015. In 2014, which includes the results of both our discontinued businesses and a $4.1 million gain from the sale of Cohu Electronics, our net income was $8.3 million.

LIQUIDITY AND CAPITAL RESOURCES

Our primary business is dependent on capital expenditures by semiconductor manufacturers and test subcontractors that are, in turn, dependent on the current and anticipated market demand for semiconductors. The 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 business to maximize operating cash flows as our primary source of liquidity. We use cash to fund growth in our operating assets and to fund new products and product enhancements primarily through research and development. As of September 26, 2015, $64.5 million of our cash and cash equivalents and short term-investments 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 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.

On September 21, 2015, we entered into an agreement and opened escrow for the sale of our Poway Facility for $34.3 million. The transaction is subject to completion of customary closing conditions and is expected to be completed in the fourth quarter of 2015. However, there can be no assurance that the proposed transaction will close as scheduled, or at all. Should the transaction close, we anticipate entering into a ten-year lease with the buyer for a portion of the Poway Facility, enabling us to continue to operate at our current location. The transaction allows us to reduce the utilized space within the Poway Facility to better fit our current needs, as we have transitioned a significant portion of our manufacturing activities to Asia.

Liquidity

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

(in thousands)	September 26, 2015	December 27, 2014	Increase (Decrease)	Percentage Change
Cash, cash equivalents and short-term investments	$ 90,727	$ 72,040	$ 18,687	25.9 %
Working capital	$ 143,528	$ 146,339	$ (2,811)	(1.9)%

Cash Flows

Operating Activities: Operating cash flows for the first nine months of fiscal 2015 consist of our net loss, adjusted for non-cash expenses and changes in operating assets and liabilities. Non-cash items include asset impairment charges, depreciation and amortization, non-cash share-based compensation expense and deferred income taxes. Our net cash provided by operating activities in the first nine months of fiscal 2015 totaled $24.6 million. Cash provided by operating activities was impacted by changes in current assets and liabilities and, excluding the impact of the disposal of BMS, included decreases in accounts receivable of $12.9 million and accrued compensation, warranty and other liabilities of $3.2 million, other current assets of $2.9 million, deferred profit of $1.1 million and increases in inventory of $5.3 million, accounts payable of $2.2 million and income taxes payable of $1.8 million. The decrease in accounts receivable resulted from lower business volume in the first nine months of fiscal 2015 and the timing of our cash conversion cycle. Accrued compensation, warranty and other liabilities decreased as a result of lower business volume. Other current assets decreased as a result of utilization of supplier and vendor prepayments and the decrease in deferred profit is a result of the recognition of revenue that was previously deferred in accordance with our revenue recognition policy. Material purchases made to fulfill customer orders for equipment expected to ship in future quarters led to an increase in our inventory balance and accounts payable increased as a result of the timing of cash payments made to our suppliers and vendors. Current year increase in business volume in certain foreign jurisdictions led to an increase in income taxes payable.

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Investing Activities: Investing cash flows consist primarily of cash used for capital expenditures in support of our businesses, proceeds from investment maturities, asset disposals and divestitures and cash used for purchases of investments and business acquisitions. Net cash provided by investing activities in the first nine months of fiscal 2015 totaled $1.3 million and was driven primarily by $5.3 million of cash received from the sale of BMS on June 10, 2015. The decision to sell BMS 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 of $3.7 million were made to support the operating and development activities of our business.

Financing Activities: Cash flows from financing activities consist primarily of net proceeds from the issuance of common stock under our stock option and employee stock purchase plans and cash used to pay dividends to our stockholders. We issue stock options and maintain an employee stock purchase plan as components of our overall employee compensation. In the first nine months of fiscal 2015, we generated net cash of $0.2 million issuing common stock under our employee stock plans and we paid dividends totaling $4.6 million, or $0.18 per common share. On October 27, 2015, Cohu's Board of Directors approved a quarterly cash dividend of $0.06 per share payable on January 4, 2016 to shareholders of record on November 20, 2015. Future quarterly dividends are subject to our cash liquidity, capital availability and periodic determinations by our Board of Directors that cash dividends are in the best interests of our stockholders.

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 our behalf. The Secured Facility requires us to maintain deposits of cash or other approved investments, which serve as collateral, in amounts that approximate our outstanding letters of credit. As of September 26, 2015, we had approximately $0.2 million of standby letters of credit outstanding under the Secured Facility. We also have credit agreements with multiple financial institutions under which they administer lines of credit on behalf of our wholly owned Ismeca subsidiary. The agreements provide Ismeca with 2.5 million Swiss Francs of available credit and at September 26, 2015, no amounts were outstanding. We expect that we will continue to make capital expenditures to support our business and we anticipate that present working capital will be sufficient to meet our operating requirements for at least the next twelve months.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations: Our significant contractual obligations consist of liabilities for operating leases, unrecognized tax benefits, pensions, post-retirement benefits and warranties. These obligations have not changed materially from those disclosed in our Annual Report on Form 10-K for the year ended December 27, 2014.

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

Off-Balance Sheet Arrangements: During the ordinary course of business, we provide standby letters of credit instruments to certain parties as required. As of September 26, 2015, the maximum potential amount of future payments that we could be required to make under these standby letters of credit was approximately $0.2 million. No liability has been recorded in connection with these arrangements beyond those required to appropriately account for the underlying transaction being guaranteed. We do not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Investment and Interest Rate Risk.

At September 26, 2015, our investment portfolio included short-term, fixed-income investment securities with a fair value of approximately $1.5 million. These securities are subject to interest rate risk and will likely decline in value if interest rates increase. Our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. As we classify our short-term securities as available-for-sale, no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be 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 September 26, 2015, 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 expense accounts are translated at an average exchange rate during the year which approximates the rates in effect at the transaction dates. The resulting translation adjustments are recorded in stockholders' equity as a component of accumulated other comprehensive income. As a result of fluctuations in certain foreign currency exchange rates in relation to the U.S. Dollar as of September 26, 2015 compared to December 27, 2014, our stockholders' equity decreased by $9.8 million.

Based upon the current levels of net foreign assets, a hypothetical 10% devaluation of the U.S. Dollar as compared to these currencies as of September 26, 2015 would result in an approximate $14.0 million positive translation adjustment recorded in other comprehensive income within stockholders' equity. Conversely, a hypothetical 10% appreciation of the U.S. Dollar as compared to these currencies as of September 26, 2015 would result in an approximate $14.0 million negative translation adjustment recorded in other comprehensive income within stockholders' equity.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes in Internal Controls. There have been no changes in our internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect our internal control over financial reporting.

Part II OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth above under Note 7 contained in the "Notes to Unaudited Condensed Consolidated Financial Statements" of this Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors.

The risks described below may not be the only risks we face. Additional risks that we do not currently believe are material may also impair our business operations. The risk factors set forth below with an asterisk (*) next to the title contain changes to the description of the risk factors associated with our business as previously disclosed in Item 1A to our 2014 Annual Report on Form 10-K. If any of the events or circumstances described in the following risks occur, our business, financial condition, results of operations or cash flows could suffer, and the trading price of our common stock and our market capitalization could decline.

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

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

**** We are exposed to 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 or assets 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 September 26, 2015 we had goodwill and net purchased intangible assets balances of $60.9 million and $27.4 million, respectively.

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.

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 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 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.

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 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.

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

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

3(i).1	Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference to Exhibit 3.1(a) from the Cohu, Inc. Form 10-Q for the quarterly period ended June 30, 1999
3(i).2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference to Exhibit 4.1(a) from the Cohu, Inc. Form S-8 filed with the Securities and Exchange Commission on June 30, 2000
3(ii)	Amended and Restated Bylaws of Cohu, Inc. incorporated herein by reference to Exhibit 3.2 from the Cohu, Inc. Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 1996
10.1	Agreement of Purchase and Sale and Joint Escrow Instructions dated September 21, 2015, by and between Cohu, Inc. and ACTH II LLC
31.1	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

	COHU, INC. (Registrant)
Date: November 5, 2015	/s/ Luis A. Müller Luis A. Müller President & Chief Executive Officer
Date: November 5, 2015	/s/ Jeffrey D. Jones Jeffrey D. Jones Vice President, Finance & Chief Financial Officer (Principal Financial & Accounting Officer)

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