

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 March 30, 2024

OR

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

For the transition period from to

Commission file number 001-04298

COHU, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-1934119

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

12367 Crosthwaite Circle, Poway, California

(Address of principal executive offices)

92064-6817

(Zip Code)

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

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

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

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Smaller reporting company ☐ Emerging growth company ☐

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

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

As of April 24, 2024, the Registrant had 47,085,873 shares of its \$1.00 par value common stock outstanding.

COHU, INC.
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MARCH 30, 2024

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Item 1.

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

	March 30, 2024 (Unaudited)	December 30, 2023 *
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 191,065	\$ 245,524
Short-term investments	80,257	90,174
Accounts receivable, net	115,994	124,624
Inventories	151,587	155,793
Prepaid expenses	23,948	17,696
Other current assets	10,066	5,007
Total current assets	572,917	638,818
Property, plant and equipment, net	76,414	69,085
Goodwill	238,322	241,658
Intangible assets, net	140,932	151,770
Other assets	29,928	32,243
Operating lease right of use assets	15,935	16,778
	<u>\$ 1,074,448</u>	<u>\$ 1,150,352</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	\$ 1,652	\$ 1,773
Current installments of long-term debt	1,151	4,551
Accounts payable	30,088	33,600
Customer advances	4,591	4,748
Accrued compensation and benefits	23,074	31,897
Deferred profit	3,021	3,586
Accrued warranty	3,802	4,653
Income taxes payable	2,456	4,024
Other accrued liabilities	21,260	14,589
Total current liabilities	91,095	103,421
Long-term debt	8,024	34,303
Deferred income taxes	23,397	23,154
Noncurrent income tax liabilities	5,310	7,065
Accrued retirement benefits	10,580	10,802
Long-term lease liabilities	12,520	13,175
Other accrued liabilities	8,165	8,262
Stockholders' equity		
Preferred stock, \$1 par value; 1,000 shares authorized, none issued	-	-
Common stock, \$1 par value; 90,000 shares authorized, 49,429 shares issued and outstanding in 2024 and 49,429 shares in 2023	49,429	49,429
Paid-in capital	679,012	686,146
Treasury stock, at cost; 2,351 shares in 2024 and 2,253 shares in 2023	(72,720)	(69,184)
Retained earnings	303,923	318,558
Accumulated other comprehensive loss	(44,287)	(34,779)
Total stockholders' equity	915,357	950,170
	<u>\$ 1,074,448</u>	<u>\$ 1,150,352</u>

* Derived from December 30, 2023 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	
	March 30, 2024	April 1, 2023
Net sales	\$ 107,614	\$ 179,371
Cost and expenses:		
Cost of sales (1)	58,365	93,153
Research and development	22,336	22,510
Selling, general and administrative	35,082	34,189
Amortization of purchased intangible assets	9,795	8,754
Restructuring charges	9	888
	<u>125,587</u>	<u>159,494</u>
Income (loss) from operations	(17,973)	19,877
Other (expense) income:		
Interest expense	(289)	(1,128)
Interest income	2,709	2,718
Foreign transaction loss	(541)	(440)
Loss on extinguishment of debt	(241)	(369)
Income (loss) before taxes	(16,335)	20,658
Income tax provision (benefit)	(1,700)	4,973
Net income (loss)	<u>\$ (14,635)</u>	<u>\$ 15,685</u>
Income (loss) per share:		
Basic	\$ (0.31)	\$ 0.33
Diluted	<u>\$ (0.31)</u>	<u>\$ 0.33</u>
Weighted average shares used in computing income (loss) per share:		
Basic	47,134	47,343
Diluted	<u>47,134</u>	<u>48,171</u>

(1) Excludes amortization of \$7,522 and \$6,891 for the three months ended March 30, 2024 and April 1, 2023, respectively.

The accompanying notes are an integral part of these statements.

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

	Three Months Ended	
	March 30, 2024	April 1, 2023
Net income (loss)	\$ (14,635)	\$ 15,685
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(9,407)	2,701
Adjustments related to postretirement benefits	(5)	29
Change in unrealized gain/loss on investments	(96)	273
Other comprehensive income (loss), net of tax	(9,508)	3,003
Comprehensive income (loss)	<u>\$ (24,143)</u>	<u>\$ 18,688</u>

The accompanying notes are an integral part of these statements.

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

	Common stock \$1 par value	Paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total
Three Months Ended April 1, 2023						
Balance at December 31, 2022	\$ 49,276	\$ 687,218	\$ 290,402	\$ (40,012)	\$ (58,043)	\$ 928,841
Net income	-	-	15,685	-	-	15,685
Changes in cumulative translation adjustment	-	-	-	2,701	-	2,701
Adjustments related to postretirement benefits, net of tax	-	-	-	29	-	29
Changes in unrealized gains and losses on investments, net of tax	-	-	-	273	-	273
Shares issued for restricted stock units vested	7	(18,067)	-	-	18,060	-
Repurchase and retirement of stock	-	(1,861)	-	-	(7,322)	(9,183)
Common stock repurchases	-	-	-	-	(3,481)	(3,481)
Share-based compensation expense	-	3,914	-	-	-	3,914
Balance at April 1, 2023	\$ 49,283	\$ 671,204	\$ 306,087	\$ (37,009)	\$ (50,786)	\$ 938,779
Three Months Ended March 30, 2024						
Balance at December 30, 2023	\$ 49,429	\$ 686,146	\$ 318,558	\$ (34,779)	\$ (69,184)	\$ 950,170
Net loss	-	-	(14,635)	-	-	(14,635)
Changes in cumulative translation adjustment	-	-	-	(9,407)	-	(9,407)
Adjustments related to postretirement benefits, net of tax	-	-	-	(5)	-	(5)
Changes in unrealized gains and losses on investments, net of tax	-	-	-	(96)	-	(96)
Shares issued for restricted stock units vested	-	(11,677)	-	-	11,677	-
Repurchase and retirement of stock	-	(85)	-	-	(4,449)	(4,534)
Common stock repurchases	-	-	-	-	(10,764)	(10,764)
Share-based compensation expense	-	4,628	-	-	-	4,628
Balance at March 30, 2024	\$ 49,429	\$ 679,012	\$ 303,923	\$ (44,287)	\$ (72,720)	\$ 915,357

The accompanying notes are an integral part of these statements.

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

	Three Months Ended	
	March 30, 2024	April 1, 2023
Cash flows from operating activities:		
Net income (loss)	\$ (14,635)	\$ 15,685
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loss on extinguishment of debt	241	369
Net accretion on investments	(321)	(289)
Loss from sale of property, plant and equipment	1	43
Depreciation and amortization	13,224	12,091
Share-based compensation expense	4,628	3,914
Non-cash inventory related charges	1,674	1,993
Deferred income taxes	818	872
Changes in accrued retiree medical benefits	(26)	(181)
Changes in other accrued liabilities	(35)	(128)
Changes in other assets	159	208
Amortization of cloud-based software implementation costs	709	700
Impairment charge related to equity investment	966	-
Amortization of debt discounts and issuance costs	8	49
Operating lease right-of-use assets	1,858	1,316
Changes in assets and liabilities, excluding effects from acquisitions:		
Customer advances	(7)	6,192
Accounts receivable	6,817	5,364
Inventories	1,524	(5,164)
Other current assets	(11,422)	756
Accounts payable	(3,488)	75
Deferred profit	(527)	(2,300)
Income taxes payable	(3,449)	(8,180)
Accrued compensation, warranty and other liabilities	(10,849)	(15,545)
Current and long-term operating lease liabilities	(1,832)	(1,355)
Net cash provided by (used in) operating activities	(13,964)	16,485
Cash flows from investing activities, excluding effects from acquisitions:		
Purchases of short-term investments	(21,855)	(16,816)
Sales and maturities of short-term investments	31,999	62,989
Purchases of property, plant and equipment	(3,327)	(5,075)
Cash received from sale of property, plant and equipment	-	120
Payment for purchase of MCT, net of cash received	-	(26,933)
Net cash provided by investing activities	6,817	14,285
Cash flows from financing activities:		
Payments on current and long-term finance lease liabilities	(8)	(24)
Repurchases of common stock, net	(4,104)	(8,578)
Repayments of long-term debt	(29,617)	(35,290)
Acquisition of treasury stock	(10,698)	(3,481)
Net cash used in financing activities	(44,427)	(47,373)
Effect of exchange rate changes on cash and cash equivalents	(2,885)	911
Net decrease in cash and cash equivalents	(54,459)	(15,692)
Cash and cash equivalents at beginning of period	245,524	242,341
Cash and cash equivalents at end of period	<u>\$ 191,065</u>	<u>\$ 226,649</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 6,101	\$ 3,760
Inventory capitalized as property, plant and equipment	\$ 396	\$ 317
Property, plant and equipment purchases included in accounts payable	\$ 232	\$ 235
Cash paid for interest	\$ 735	\$ 1,784

The accompanying notes are an integral part of these statements.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
March 30, 2024

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 30, 2023, has been derived from our audited financial statements at that date. The interim condensed consolidated financial statements as of March 30, 2024, (also referred to as “the first quarter of fiscal 2024” and “the first three months of fiscal 2024”) and April 1, 2023, (also referred to as “the first quarter of fiscal 2023” and “the first three months of fiscal 2023”) are unaudited. However, in management’s opinion, these financial statements reflect all adjustments (consisting only of normal, recurring items) necessary to provide a fair presentation of our financial position, results of operations and cash flows for the periods presented. The first quarter of fiscal 2024 and 2023 were both comprised of 13 weeks.

Our interim results are not necessarily indicative of the results that should be expected for the full year. The condensed consolidated financial statements presented herein reflect estimates and assumptions made by management at March 30, 2024 and for the three-month period ended March 30, 2024. 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 30, 2023, which are included in our 2023 Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission (“SEC”). In the following notes to our interim condensed consolidated financial statements, Cohu, Inc. is referred to as “Cohu”, “we”, “our” and “us”.

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

Concentration of Credit Risk

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

Our trade accounts receivable are presented net of an allowance for credit losses, which is determined in accordance with the guidance provided by Accounting Standards Codification (“ASC”) Topic 326, *Financial Instruments-Credit Losses*, (“ASC 326”). At March 30, 2024 and December 30, 2023, our allowance for credit losses was \$0.4 million and \$0.3 million, respectively. Our customers include semiconductor manufacturers and semiconductor test subcontractors and other customers located throughout the world. While we believe that our allowance for credit losses is adequate and represents our best estimate at March 30, 2024, we will continue to monitor customer liquidity and other economic conditions, which may result in changes to our estimates regarding expected credit losses.

Inventories

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

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

	March 30, 2024	December 30, 2023
Raw materials and purchased parts	\$ 97,661	\$ 103,118
Work in process	28,931	26,820
Finished goods	24,995	25,855
Total inventories	<u>\$ 151,587</u>	<u>\$ 155,793</u>

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
March 30, 2024

Property, Plant and Equipment

Depreciation and amortization of property, plant and equipment, both owned and under financing lease, is calculated principally on the straight-line method based on estimated useful lives of thirty to forty years for buildings, five to fifteen years for building improvements and three to ten years for machinery, equipment and software. Land is not depreciated.

Property, plant and equipment, at cost, consisted of the following (*in thousands*):

	March 30, 2024	December 30, 2023
Land and land improvements	\$ 7,114	\$ 7,301
Buildings and building improvements	46,193	39,677
Machinery and equipment	110,271	108,831
	163,578	155,809
Less accumulated depreciation and amortization	(87,164)	(86,724)
Property, plant and equipment, net	\$ 76,414	\$ 69,085

Cloud-based Enterprise Resource Planning Implementation Costs

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

Unamortized capitalized cloud computing implementation costs totaled \$11.4 million and \$12.2 million at March 30, 2024, and December 30, 2023, respectively. These amounts are recorded within other current assets and other assets in our condensed consolidated balance sheets. Implementation costs are amortized using the straight-line method over seven years and we recorded \$0.7 million in amortization expense during both the three months ended March 30, 2024, and April 1, 2023.

Segment Information

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

Goodwill, Intangible Assets and Other Long-lived Assets

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

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
March 30, 2024

We conduct our annual impairment test as of October 1st of each year and have determined there was no impairment as of October 1, 2023, as the estimated fair values of our reporting units and indefinite-lived intangible assets exceeded their carrying values on that date. Other events and changes in circumstances may also require goodwill to be tested for impairment between annual measurement dates. As of March 30, 2024, we do not believe that circumstances have occurred that indicate impairment of our goodwill is more-likely-than-not. In the event we determine that an interim goodwill impairment review is required, in a future period, the review may result in an impairment charge, which would have a negative impact on our results of operations.

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

During the first quarter of fiscal 2024, no events or conditions occurred suggesting an impairment in our goodwill, other intangible assets and long-lived assets.

Product Warranty

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

Restructuring Costs

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

Debt Issuance Costs

We capitalize costs related to the issuance of debt. Debt issuance costs that were directly related to our Term Loan Credit Facility were presented within noncurrent liabilities as a reduction of long-term debt in our condensed consolidated balance sheets. The amortization of such costs was recognized as interest expense using the effective interest method over the term of the respective debt issue. Amortization related to deferred debt issuance costs and original discount costs was \$49,000 for the three months ended April 1, 2023. On February 9, 2024, we repaid the remaining outstanding amounts owed under our Term Loan Credit Facility and recognized the remaining capitalized debt issuance costs. See Note 3, "Borrowings and Credit Agreements" for additional information.

Foreign Remeasurement and Currency Translation

Assets and liabilities of our wholly owned foreign subsidiaries that use the U.S. Dollar as their functional currency are re-measured using exchange rates in effect at the end of the period, except for nonmonetary assets, such as inventories and property, plant and equipment, which are re-measured using historical exchange rates. Revenues and costs are re-measured using average exchange rates for the period, except for costs related to those balance sheet items that are re-measured using historical exchange rates. Gains and losses on foreign currency transactions are recognized as incurred. During the three months ended March 30, 2024, we recognized foreign exchange losses of \$0.5 million, in our condensed consolidated statements of operations. During the three months ended April 1, 2023, we recognized foreign exchange losses of \$0.4 million.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
March 30, 2024

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

Foreign Exchange Derivative Contracts

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

Share-Based Compensation

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

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

	Three Months Ended	
	March 30, 2024	April 1, 2023
Cost of sales	\$ 227	\$ 180
Research and development	834	866
Selling, general and administrative	3,567	2,868
Total share-based compensation	4,628	3,914
Income tax effect	203	(2,776)
Total share-based compensation, net	<u>\$ 4,831</u>	<u>\$ 1,138</u>

Income (Loss) Per Share

Basic income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the reporting period. Diluted income (loss) per share includes the dilutive effect of common shares potentially issuable upon the exercise of stock options, vesting of outstanding restricted stock and performance stock units and issuance of stock under our employee stock purchase plan using the treasury stock method. In loss periods, potentially dilutive securities are excluded from the per share computations due to their anti-dilutive effect. For purposes of computing diluted income (loss) per share, stock options with exercise prices that exceed the average fair market value of our common stock for the period are excluded. For the three months ended March 30, 2024, approximately 5,000 shares of common stock were excluded from the computation. For the three months ended April 1, 2023, 112,000 shares were excluded from the computation. All shares repurchased and held as treasury stock are reflected as a reduction to our basic weighted average shares outstanding based on the trade date of the share repurchase.

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
March 30, 2024

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

	Three Months Ended March 30, 2024	April 1, 2023
Weighted average common shares	47,134	47,343
Effect of dilutive securities	-	828
	47,134	48,171

Leases

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

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

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

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

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

Revenue Recognition

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

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

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

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Unsatisfied performance obligations primarily represent contracts for products with future delivery dates. At March 30, 2024, we had \$6.1 million of revenue expected to be recognized in the future related to performance obligations that were unsatisfied (or partially unsatisfied) for contracts with original expected durations of over one year. As allowed under ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”), we have opted to not disclose unsatisfied performance obligations for contracts with original expected durations of less than one year.

We generally sell our equipment with a product warranty. The product warranty provides assurance to customers that delivered products are as specified in the contract (an “assurance-type warranty”). Therefore, we account for such product warranties under ASC Topic 460, *Guarantees* (“ASC 460”), and not as a separate performance obligation.

The transaction price reflects our expectations about the consideration we will be entitled to receive from the customer and may include fixed or variable amounts. Fixed consideration primarily includes sales to customers that are known as of the end of the reporting period. Variable consideration includes sales in which the amount of consideration that we will receive is unknown as of the end of a reporting period. Such consideration primarily includes sales made to certain customers with cumulative tier volume discounts offered. Variable consideration arrangements are rare; however, when they occur, we estimate variable consideration as the expected value to which we expect to be entitled. Included in the transaction price estimate are amounts in which it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration that does not meet revenue recognition criteria is deferred.

Our contracts are typically less than one year in duration and we have elected to use the practical expedient available in ASC 606 to expense cost to obtain contracts as they are incurred because they would be amortized over less than one year.

Accounts receivable represents our unconditional right to receive consideration from our customer. Payment terms do not exceed one year from the invoice date and therefore do not include a significant financing component. To date, there have been no material impairment losses on accounts receivable. There were no material contract assets or contract liabilities recorded on our condensed consolidated balance sheet in any of the periods presented.

On shipments where sales are not recognized, gross profit is generally recorded as deferred profit in our condensed consolidated balance sheet, representing the difference between the receivable recorded and the inventory shipped. At March 30, 2024, we had deferred revenue totaling approximately \$8.2 million, current deferred profit of \$3.0 million and deferred profit expected to be recognized after one year included in noncurrent other accrued liabilities of \$4.8 million. At December 30, 2023, we had deferred revenue totaling approximately \$8.8 million, current deferred profit of \$3.6 million and deferred profit expected to be recognized after one year included in noncurrent other accrued liabilities of \$4.9 million.

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

<i>Disaggregated Net Sales</i>	Three Months Ended	
	March 30, 2024	April 1, 2023
Systems	\$ 37,311	\$ 102,984
Non-systems	70,303	76,387
Total net sales	<u>\$ 107,614</u>	<u>\$ 179,371</u>

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

<i>Disaggregated Net Sales</i>	Three Months Ended	
	March 30, 2024	April 1, 2023
Malaysia	\$ 16,899	\$ 31,895
United States	14,642	18,743
Singapore	12,064	10,706
Philippines	11,842	31,790
China	11,744	21,110
Rest of the World	40,423	65,127
Total net sales	<u>\$ 107,614</u>	<u>\$ 179,371</u>

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	
	March 30, 2024	April 1, 2023
Customers individually accounting for more than 10% of net sales	one	two
Percentage of net sales	10%	24%

Accumulated Other Comprehensive Loss

Our accumulated other comprehensive loss balance totaled approximately \$44.3 million and \$34.8 million at March 30, 2024 and December 30, 2023, respectively, and was attributed to all non-owner changes in stockholders' equity and consists of, on an after-tax basis where applicable, foreign currency adjustments resulting from the translation of certain of our subsidiary accounts where the functional currency is not the U.S. Dollar, unrealized loss on investments and adjustments related to postretirement benefits. Reclassification adjustments from accumulated other comprehensive loss during the three months of fiscal 2024 and 2023 were not significant.

Retiree Medical Benefits

We provide post-retirement health benefits to certain retired executives, one director (who is a former executive) and their eligible dependents under a noncontributory plan. These benefits are no longer offered to any other retired Cohu employees. The net periodic benefit cost incurred during the three months of fiscal 2024 and 2023 was not significant.

Recent Accounting Pronouncements

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which requires enhancements and further transparency to certain income tax disclosures, most notably the tax rate reconciliation and income taxes paid. This ASU is effective for fiscal years beginning after December 15, 2024, may be applied prospectively or retrospectively, and allows for early adoption. We are currently evaluating the impact of the adoption of this standard.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which expands reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The amendments in the ASU require, among other things, disclosure of significant segment expenses that are regularly provided to an entity's chief operating decision maker ("CODM") and a description of other segment items (the difference between segment revenue less the segment expenses disclosed under the significant expense principle and each reported measure of segment profit or loss) by reportable segment, as well as disclosure of the title and position of the CODM, and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources. This ASU is effective for fiscal years beginning after December 15, 2023 and interim disclosures are required for periods within fiscal years beginning after December 15, 2024. Retrospective application is required, and early adoption is permitted. We are currently evaluating the impact of the adoption of this standard.

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2. Business Acquisitions, Goodwill and Purchased Intangible Assets

EQT

On October 2, 2023, we completed the acquisition of Equiptest Engineering Pte. Ltd. (“EQT”), a provider of semiconductor test contactors and other consumables. (“the EQT Acquisition”). EQT is a Singapore-based company with its principal manufacturing site located there. EQT provides test interface products including high performance thermal, MEMS, Infrared, Coaxial and Kelvin Contactors that expand our interface products in mid-to high-power contactors. The EQT Acquisition was a cash-free debt-free transaction and was subject to a working capital adjustment for the difference between the actual and estimated net working capital. We made a cash payment of SGD 66.0 million (\$48.3 million) on October 2, 2023 and set up a retention sum liability for potential adjustments to working capital, future tax or insurance claims in the amount of SGD 2.2 million (\$1.6 million) resulting in an initial purchase price of SGD 68.3 million (\$49.9 million). The working capital adjustment was finalized in January 2024 and an additional cash payment was made to EQT owners of SGD 0.8 million (approximately \$0.6 million) resulting in a purchase price of SGD 68.8 million (\$50.3 million). The retention liability for remaining tax, insurance and other claims as of March 30, 2024 was SGD 1.7 million (\$1.3 million) and is accrued in long term other liabilities on our condensed consolidated balance sheet. The EQT Acquisition has been accounted for in conformity with ASC 805.

We have not finalized the purchase price allocation. Accordingly, the preliminary purchase price allocation shown below could materially change as we are still in the process of finalizing the fair values of the tangible and intangible assets acquired and liabilities assumed, and the related income tax effects may still be adjusted as they are finalized during the remainder of the measurement period (which will not exceed 12 months from the acquisition closing date). The EQT Acquisition was nontaxable and certain of the assets acquired, including goodwill and intangibles, will not be deductible for tax purposes. The acquired assets and liabilities of EQT were recorded at their respective fair values including an amount for goodwill representing the difference between the Acquisition consideration and the fair value of the identifiable net assets. We expect to finalize the purchase accounting for EQT in the second quarter of 2024.

The table below summarizes the assets acquired and liabilities assumed as of October 2, 2023 (*in thousands*):

Current assets, including cash received	\$ 10,135
Property, plant and equipment	538
Intangible assets	34,500
Goodwill	15,377
Total assets acquired	60,550
Liabilities assumed	(10,203)
Net assets acquired	\$ 50,347

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

	Estimated Fair Value	Weighted Average Useful Life (years)
Developed technology	\$ 20,600	8.0
Customer relationships	12,900	10.0
Product backlog	100	1.0
Trademarks and trade names	900	5.0
Total intangible assets	\$ 34,500	

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

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

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

The preliminary value assigned to backlog acquired was estimated based upon the contractual nature of the backlog as of October 2, 2023, using the multi-period excess earnings method under the income approach to discount back to present value the cash flows attributable to the backlog at a discount rate commensurate with the expected risks of the backlog cash flows.

The preliminary value assigned to trademarks and trade names acquired was determined by using the relief from royalty method under the income approach, which included assumptions related to revenue growth rates, royalty rates, and discount rates.

EQT's results of operations have been included starting October 2, 2023. The impact of EQT on our condensed consolidated statements of operations and comprehensive income (loss) was not material.

Goodwill and Intangible Assets

Changes in the carrying value of goodwill during the year ended December 30, 2023, and the three-month period ended March 30, 2024 were as follows (*in thousands*):

	Goodwill
Balance December 31, 2022	\$ 213,539
Additions	24,132
Impact of currency exchange	3,987
Balance, December 30, 2023	241,658
Impact of currency exchange	(3,336)
Balance, March 30, 2024	\$ 238,322

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

	March 30, 2024			December 30, 2023		
	Gross Carrying Amount	Accum. Amort.	Remaining Weighted Average Amort. Period (in years)	Gross Carrying Amount	Accum. Amort.	
Developed technology	\$ 231,681	\$ 143,340	4	\$ 233,623	\$ 137,168	
Customer relationships	73,285	30,431	6.8	73,759	28,932	
Trade names	21,139	11,516	5.2	21,569	11,231	
Product backlog	100	50	0.5	100	25	
Covenant not-to-compete	233	169	2.8	250	175	
Total intangible assets	<u>\$ 326,438</u>	<u>\$ 185,506</u>		<u>\$ 329,301</u>	<u>\$ 177,531</u>	

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

Amortization expense related to intangible assets in the first quarter of fiscal 2024 and 2023 was \$9.8 million and \$8.8 million, respectively.

3. Borrowings and Credit Agreements

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

	March 30, 2024	December 30, 2023
Bank Term Loan under Credit Agreement	\$ -	\$ 29,327
Bank Term Loans-Kita	1,905	2,095
Construction Loan- Cohu GmbH	7,270	7,681
Lines of Credit	1,652	1,773
Total debt	10,827	40,876
Less: financing fees and discount	-	(249)
Less: current portion	(2,803)	(6,324)
Total long-term debt	<u>\$ 8,024</u>	<u>\$ 34,303</u>

Credit Agreement

On October 1, 2018, we entered into a Credit Agreement providing for a \$350.0 million Term Loan Credit Facility and borrowed the full amount to finance a portion of the Xcerra acquisition. Loans under the Term Loan Credit Facility amortize in equal quarterly installments of 0.25% of the original principal amount, with the balance payable at maturity. All outstanding principal and interest in respect of the Term Loan Credit Facility would have been due on or before October 1, 2025. The loans under the Term Loan Credit Facility bore interest, at Cohu's option, at a floating annual rate equal to LIBOR plus a margin of 3.00%. On June 16, 2023, in connection with the discontinuation of LIBOR, we entered into an amendment to our Term Loan Credit Facility, which provided for the transition of the benchmark interest rate from LIBOR to SOFR. Effective with the interest period beginning July 1, 2023, LIBOR was replaced with Adjusted Term SOFR, a floating annual rate equal to SOFR plus a margin of 3.0%. At December 30, 2023, the outstanding loan balance, net of discount and deferred financing costs, was \$29.1 million and \$3.4 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets.

On February 9, 2024, we made a cash payment of \$29.3 million to repay the remaining outstanding amounts owed under our Term Loan Credit Facility. We accounted for the transaction as a debt extinguishment, and in the first quarter of fiscal 2024 we recognized a loss of \$0.2 million due to the recognition of the remaining debt discount and deferred financing costs. During the first three months of 2023, we repurchased \$34.1 million in principal of our Term Loan Credit Facility for \$34.1 million in cash. This resulted in a loss of \$0.4 million reflected in other expense in our condensed consolidated statement of operations and a \$0.4 million reduction in debt discounts and deferred financing costs in our condensed consolidated balance sheets.

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Kita Term Loans

We have a series of term loans with Japanese financial institutions primarily related to the expansion of our facility in Osaka, Japan. The loans are collateralized by the facility and land, carry interest at rates ranging from 0.05% to 0.54%, and expire at various dates through 2034. At March 30, 2024, the outstanding loan balance was \$1.9 million and \$0.2 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 30, 2023, the outstanding loan balance was \$2.1 million and \$0.2 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. The fair value of the debt approximates the carrying value at March 30, 2024.

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

Construction Loans

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

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

At March 30, 2024, total outstanding borrowings under the Loan Facilities was \$7.3 million with \$1.0 million of the total outstanding balance being presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 30, 2023, total outstanding borrowings under the Loan Facilities was \$7.7 million with \$1.0 million of the total outstanding balance being presented as current installments of long-term debt in our condensed consolidated balance sheets. The loans are denominated in Euros and, as a result, amounts disclosed herein will fluctuate because of changes in currency exchange rates. The fair value of the debt approximates the carrying value at March 30, 2024.

Lines of Credit

As a result of our acquisition of Kita, we assumed a series of revolving credit facilities with various financial institutions in Japan. The credit facilities renew monthly and provide Kita with access to working capital totaling up to 960 million Japanese Yen of which 250 million Japanese Yen was drawn as of March 30, 2024. At March 30, 2024, total borrowings outstanding under the revolving lines of credit were \$1.7 million. As these credit facility agreements renew monthly, they have been included in short-term borrowings in our condensed consolidated balance sheets.

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

Our wholly owned subsidiary in Switzerland has one line of credit which provides borrowings of up to a total of 2.0 million Swiss Francs, a portion of which is reserved for tax guarantees. At March 30, 2024 and December 30, 2023 no amounts were outstanding under this line of credit.

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4. Restructuring Charges

MCT Integration Program

During the first quarter of 2023, in connection with the acquisition of MCT Worldwide, LLC (“MCT”), we began a strategic restructuring and integration program in connection with the acquisition of MCT (“MCT Integration Program”). As part of the MCT Integration Program, we consolidated MCT’s Penang, Malaysia manufacturing operations into Cohu’s Malacca, Malaysia manufacturing operations during 2023. Relating to the facility consolidation actions, we notified certain impacted employees of a reduction in force program and the facility consolidation and the reduction in force program were implemented as part of a comprehensive review of our operations and were intended to reduce our operating cost structure and capitalize on acquisition synergies. As of March 30, 2024, restructuring activities associated with the MCT Integration Program were materially complete.

As a result of the activities described above, we recognized total pretax charges of \$0.9 million during the three months ended April 1, 2023, that are within the scope of ASC 420. Total pretax charges for the three months ended March 30, 2024 were not material.

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

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

5. Financial Instruments Measured at Fair Value

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

We assess whether unrealized loss positions on available-for-sale debt securities are due to credit-related factors. The credit-related portion of unrealized losses, and any subsequent improvements, are recorded in earnings through an allowance account. Unrealized gains and losses that are not due to credit-related factors are included in accumulated other comprehensive income (loss). Factors that could indicate an impairment exists include, but are not limited to earnings performance, changes in credit rating or adverse changes in the regulatory or economic environment of the asset. Gross realized gains and losses on sales of short-term investments are included in interest income. Realized gains and losses for the periods presented were not significant.

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

	March 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
Corporate debt securities (2)	\$ 44,509	\$ 60	\$ 28	\$ 44,541
U.S. treasury securities	18,458	4	62	18,400
Bank certificates of deposit	10,290	7	-	10,297
Asset-backed securities	5,953	7	3	5,957
Foreign government security	730	-	-	730
Municipal securities	330	2	-	332
	<u>\$ 80,270</u>	<u>\$ 80</u>	<u>\$ 93</u>	<u>\$ 80,257</u>

	December 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Estimated Fair Value
Corporate debt securities (2)	\$ 45,105	\$ 147	\$ 15	\$ 45,237
U.S. treasury securities	20,439	26	116	20,349
Bank certificates of deposit	15,468	20	-	15,488
Asset-backed securities	8,017	17	10	8,024
Foreign government security	741	-	-	741
Municipal securities	330	5	-	335
	<u>\$ 90,100</u>	<u>\$ 215</u>	<u>\$ 141</u>	<u>\$ 90,174</u>

- (1) As of March 30, 2024, the cost and fair value of investments with loss positions was approximately \$44.7 million and \$44.6 million, respectively. As of December 30, 2023, the cost and fair value of investments with loss positions was approximately \$38.5 million and \$38.4 million, respectively. We evaluated the nature of these investments, credit worthiness of the issuer and the duration of these impairments to determine if a credit loss exists. We have the ability and intent to hold these investments to maturity.
- (2) Corporate debt securities include investments in financial and other corporate institutions. No single issuer represents a significant portion of the total corporate debt securities portfolio.

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

	March 30, 2024		December 30, 2023	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 51,055	\$ 50,992	\$ 57,981	\$ 57,887
Due after one year through five years	28,485	28,535	31,378	31,546
Due after five years through ten years	730	730	741	741
	<u>\$ 80,270</u>	<u>\$ 80,257</u>	<u>\$ 90,100</u>	<u>\$ 90,174</u>

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.

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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 March 30, 2024 using:				
	Level 1	Level 2	Level 3	Total estimated fair value
Cash	\$ 135,293	\$ -	\$ -	\$ 135,293
Corporate debt securities	-	52,611	-	52,611
Money market funds	-	47,703	-	47,703
U.S. treasury securities	-	18,399	-	18,399
Bank certificates of deposit	-	10,297	-	10,297
Asset-backed securities	-	5,957	-	5,957
Foreign government security	-	730	-	730
Municipal securities	-	332	-	332
	<u>\$ 135,293</u>	<u>\$ 136,029</u>	<u>\$ -</u>	<u>\$ 271,322</u>

Fair value measurements at December 30, 2023 using:				
	Level 1	Level 2	Level 3	Total estimated fair value
Cash	\$ 157,697	\$ -	\$ -	\$ 157,697
Money market funds	-	81,115	-	81,115
Corporate debt securities	-	51,949	-	51,949
U.S. treasury securities	-	20,349	-	20,349
Bank certificates of deposit	-	15,488	-	15,488
Asset-backed securities	-	8,024	-	8,024
Foreign government security	-	741	-	741
Municipal securities	-	335	-	335
	<u>\$ 157,697</u>	<u>\$ 178,001</u>	<u>\$ -</u>	<u>\$ 335,698</u>

6. Employee Stock Benefit Plans

Our 2005 Equity Incentive Plan (“2005 Plan”) is a broad-based, long-term retention program intended to attract, motivate, and retain talented employees as well as align stockholder and employee interests. Awards that may be granted under the program include, but are not limited to, non-qualified and incentive stock options, restricted stock units, and performance stock units. We settle employee stock option exercises, employee stock purchase plan purchases, and the vesting of restricted stock units, and performance stock units with newly issued common shares. On March 30, 2024, there were 2,483,103 shares available for future equity grants under the 2005 Plan.

Stock Options

Stock options may be granted to employees, consultants and non-employee directors to purchase a fixed number of shares of our common stock. The exercise prices of options granted are at least equal to the fair market value of our common stock on the dates of grant and options vest and become exercisable in annual increments that range from one to four years from the date of grant. Stock options granted under the 2005 Plan have a maximum contractual term of ten years. In the three months of fiscal 2024, we did not grant any stock options. On March 30, 2024, no stock options were exercisable and outstanding.

Restricted Stock Units

We grant restricted stock units (“RSUs”) to certain employees, consultants and directors. RSUs vest in annual increments that range from one to four years from the date of grant. Prior to vesting, RSUs do not have dividend equivalent rights, do not have voting rights and the shares underlying the RSUs are not considered issued and outstanding. Shares of our common stock will be issued on the date the RSUs vest net of the minimum statutory tax withholding requirements to be paid by us on behalf of our employees. As a result, the actual number of shares issued will be fewer than the actual number of RSUs outstanding at March 30, 2024.

In the three months of fiscal 2024, we awarded 348,222 RSUs and issued 317,684 shares of our common stock on vesting of previously granted awards and 17,661 RSUs were forfeited. On March 30, 2024, we had 896,885 RSUs outstanding with an aggregate intrinsic value of approximately \$29.9 million and the weighted average remaining vesting period was approximately 1.6 years.

Cohu, Inc.
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Performance Stock Units

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

We estimate the fair value of the PSUs using a Monte Carlo simulation model on the date of grant. Compensation expense is recognized ratably over the explicit service period. To the extent applicable performance conditions are satisfied, shares of our common stock are issued on the date the PSUs vest net of the minimum statutory tax withholding requirements to be paid by us on behalf of our employees.

In the three months of fiscal 2024, we awarded 198,989 PSUs, we issued 62,680 shares of our common stock on vesting of previously granted awards and 8,881 shares were forfeited. On March 30, 2024, we had 535,450 PSUs outstanding with an aggregate intrinsic value of approximately \$17.8 million and the weighted average remaining vesting period was approximately 2.0 years.

Employee Stock Purchase Plan

The Cohu, Inc. 1997 Employee Stock Purchase Plan (“ESPP”) provides for the issuance of shares of our common stock. Under the ESPP, eligible employees may purchase shares of Cohu common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value of Cohu common stock at the beginning or end of each 6-month purchase period, subject to certain limits. During the three months of fiscal 2024, no shares of our common stock were sold to our employees under the ESPP leaving 799,669 shares available for future issuance as of March 30, 2024.

7. Derivative Financial Instruments*Foreign Exchange Derivative Contracts*

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

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

The fair value of our foreign exchange derivative contracts was determined based on current foreign currency exchange rates and forward points. All our foreign exchange derivative contracts outstanding at March 30, 2024 will mature during the second quarter of fiscal 2024.

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The following table provides information about our foreign currency forward contracts outstanding as of March 30, 2024 (*in thousands*):

Currency	Contract Position	Contract Amount (Local Currency)	Contract Amount (U.S. Dollars)
Euro	Buy	83,295	\$ 90,000
Swiss Franc	Buy	11,699	13,000
South Korean Won	Buy	2,691,060	2,000
Japanese Yen	Buy	75,340	500
			<u>\$ 105,500</u>

Our foreign currency contracts are classified within Level 2 of the fair value hierarchy as they are valued using pricing models that utilize observable market inputs. The fair values of foreign currency contracts outstanding on March 30, 2024 were immaterial.

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

Derivatives not designated as hedging instruments	Location of gain (loss) recognized on derivatives	Three months ended	
		Mar. 30, 2024	Apr. 1, 2023
Foreign exchange forward contracts	Foreign transaction gain (loss)	\$ (4,078)	\$ 1,081

8. Equity

Share Repurchase Program

On October 28, 2021, we announced that our Board of Directors authorized a \$70 million share repurchase program. On October 25, 2022, our Board of Directors authorized an additional \$70 million under the share repurchase program. This share repurchase program was effective as of November 2, 2021 and has no expiration date, and the timing of share repurchases and the number of shares of common stock to be repurchased will depend upon prevailing market conditions and other factors. Repurchases under this program will be made using our existing cash resources and may be commenced or suspended from time-to-time at our discretion without prior notice. Repurchases may be made in the open market, through 10b5-1 programs, or in privately negotiated transactions at prevailing market rates in accordance with federal securities laws. During the three months ended March 30, 2024, we repurchased 333,504 shares of our common stock for \$10.7 million to be held as treasury stock. During the three months ended April 1, 2023, we repurchased 99,682 shares of our common stock for \$3.5 million to be held as treasury stock. As of March 30, 2024, \$47.6 million of shares of our common stock remained available for us to repurchase under our share repurchase program.

9. Income Taxes

We account for income taxes in accordance with ASC Topic 740, *Income Taxes*, (“ASC 740”). The provision or benefit for income taxes is attributable to U.S. federal, state, and foreign income taxes. Our effective tax rate (“ETR”) used for interim periods is based on an estimated annual effective tax rate, including the tax effect of items required to be recorded discretely in the interim periods in which those items occur. Our ETR is different than the statutory rate in the U.S. due to foreign income taxed at different rates than the U.S., generation of tax credits, changes in uncertain tax benefit positions, changes to valuation allowances, and the impact of Global Intangible Low-Taxed Income (“GILTI”) and the Base Erosion and Anti-abuse Tax (“BEAT”). In addition, we have numerous tax holidays related to our manufacturing operations in Malaysia and the Philippines. The tax holiday periods expire at various times in the future; however, we actively seek to obtain new tax holidays.

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

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

In assessing whether a valuation allowance is required, significant weight is to be given to evidence that can be objectively verified. We have evaluated our DTAs at each reporting period, including an assessment of our cumulative income or loss over the prior three-year period and future periods, to determine if a valuation allowance was required.

Based on the evidence available, including a lack of sustainable earnings and history of expiring unused NOLs, and tax credits, we continue to maintain our judgment that a previously recorded valuation allowance against substantially all of our net deferred tax assets in the United States is still required. If a change in judgment regarding this valuation allowance were to occur in the future, we will record a potentially material deferred tax benefit, which could result in a favorable impact on the effective tax rate in that period.

In accordance with the disclosure requirements as described in ASC 740, we have classified unrecognized tax benefits as non-current income tax liabilities, or a reduction in non-current deferred tax assets, unless expected to be paid within one year. Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

10. Leases

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

Our leases have remaining lease terms of 1 year to 34 years, some of which include one or more options to extend the lease for up to 25 years. Our lease terms include renewal terms when we are reasonably certain that we will exercise the renewal options. We sublease certain leased assets to third parties, mainly as a result of unused space in our facilities.

Cohu, Inc.
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March 30, 2024

Supplemental balance sheet information related to leases was as follows:

<i>(in thousands)</i>	Classification	March 30, 2024	December 30, 2023
Assets			
Operating lease assets	Operating lease right-of-use assets ⁽¹⁾	\$ 15,935	\$ 16,778
Finance lease assets	Property, plant and equipment, net ⁽¹⁾	9,063	247
Total lease assets		<u>\$ 24,998</u>	<u>\$ 17,025</u>
Liabilities			
Current			
Operating	Other accrued liabilities ⁽¹⁾	\$ 4,863	\$ 5,122
Finance	Other accrued liabilities ⁽¹⁾	7,981	11
Noncurrent			
Operating	Long-term lease liabilities	12,509	13,160
Finance	Long-term lease liabilities	11	15
Total lease liabilities		<u>\$ 25,364</u>	<u>\$ 18,308</u>
Weighted-average remaining lease term (years)			
Operating leases		5.4	5.5
Finance leases		0.3	1.7
Weighted-average discount rate			
Operating leases		6.4%	6.4%
Finance leases		2.7%	4.0%

(1) Finance lease assets are recorded net of accumulated amortization of \$0.3 million as of March 30, 2024 and December 30, 2023. During the first quarter of fiscal 2024, we executed an agreement to purchase our leased facility in Malaysia for \$8.8 million, with the expectation that the title will transfer during 2024. We treated this transaction as a lease modification, and changed the classification to a finance lease, reducing our operating lease assets and liabilities by \$0.4 million and increasing our finance lease assets and current lease liabilities by \$8.8 million and \$7.9 million, respectively.

The components of lease expense were as follows:

<i>(in thousands)</i>	Three Months Ended	
	March 30, 2024	April 1, 2023
Operating leases	\$ 1,618	\$ 1,679
Variable lease expense	570	559
Short-term operating leases	1	6
Finance leases		
Amortization of leased assets	21	26
Interest on lease liabilities	53	-
Sublease income	(3)	(10)
Net lease cost	<u>\$ 2,260</u>	<u>\$ 2,260</u>

Future minimum lease payments at March 30, 2024, are as follows:

<i>(in thousands)</i>	Operating leases	Finance leases	Total
2024	\$ 4,410	\$ 8,038	\$ 12,448
2025	5,451	11	5,462
2026	2,809	3	2,812
2027	1,587	-	1,587
2028	1,270	-	1,270
Thereafter	5,538	-	5,538
Total lease payments	21,065	8,052	29,117
Less: Interest	(3,693)	(60)	(3,753)
Present value of lease liabilities	<u>\$ 17,372</u>	<u>\$ 7,992</u>	<u>\$ 25,364</u>

Cohu, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
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Supplemental cash flow information related to leases was as follows:

<i>(in thousands)</i>	Three Months Ended	
	March 30, 2024	April 1, 2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 1,670	\$ 1,675
Financing cash flows from finance leases	\$ 8	\$ 24
Leased assets obtained in exchange for new finance lease liabilities	\$ 8,844	\$ -
Leased assets obtained in exchange for new operating lease liabilities	\$ 1,049	\$ 95
Financing lease assets acquired in MCT acquisition	\$ -	\$ 19
Operating lease assets acquired in MCT acquisition	\$ -	\$ 130

11. Contingencies

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

12. Guarantees

Product Warranty

Our products are generally sold with warranty periods that range from 12 to 36 months following sale or acceptance. The product warranty promises customers that delivered products are as specified in the contract (an “assurance-type warranty”). Therefore, we account for such product warranties under ASC 460, and not as a separate performance obligation. Parts and labor are covered under the terms of the warranty agreement. The warranty provision is based on historical and projected experience by product and configuration.

Changes in accrued warranty were as follows *(in thousands)*:

	Three Months Ended	
	March 30, 2024	April 1, 2023
Balance at beginning of period	\$ 5,017	\$ 6,214
Warranty expense accruals	906	1,980
Warranty payments	(1,628)	(2,146)
Liability acquired	-	67
Balance at end of period	<u>\$ 4,295</u>	<u>\$ 6,115</u>

Accrued warranty amounts expected to be incurred after one year are included in noncurrent other accrued liabilities in the condensed consolidated balance sheet. These amounts totaled \$0.5 million and \$0.4 million at March 30, 2024 and December 30, 2023, respectively.

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

This Form 10-Q contains certain forward-looking statements including expectations of market conditions, challenges and plans, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the Safe Harbor provisions created by that statute. Such forward-looking statements are based on management's current expectations and beliefs, including estimates and projections about our business and include, but are not limited to, statements concerning financial position, business strategy, our industry environment, market growth expectations, and plans or objectives for future operations. Forward-looking statements are not guarantees of future performance, and are subject to certain risks, uncertainties, and assumptions that are difficult to predict and may cause actual results to differ materially from management's current expectations. Such risks and uncertainties include those set forth in this Quarterly Report on Form 10-Q and our 2023 Annual Report on Form 10-K under the heading "Item 1A. Risk Factors". The forward-looking statements in this report speak only as of the time they are made, and do not necessarily reflect management's outlook at any other point in time. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or for any other reason, however, readers should carefully review the risk factors set forth in other reports or documents we file from time to time with the SEC after the date of this Quarterly Report. This Form 10-Q also contains estimates, projections and other information concerning our industry, our business, and the markets for certain of our products. Information that is based on estimates, forecasts, projections, market research or similar methodologies is inherently subject to uncertainties and actual events or circumstances may differ materially from events and circumstances reflected in this information. Unless otherwise expressly stated, we obtained this industry, business, market, and other data from reports, research surveys, studies, and similar data prepared by market research firms and other third parties, industry, and general publications, government data, and similar sources.

OVERVIEW

Cohu is a global technology leader supplying test, interface, automation, inspection and metrology products, software and services to the semiconductor industry. Cohu's differentiated and broad product portfolio enables optimized yield and productivity, accelerating customers' manufacturing time-to-market. We offer a wide range of products and services, and revenue from our capital equipment products is driven by the capital expenditure budgets and spending patterns of our customers, who often delay or accelerate purchases in reaction to variations in their business. The level of capital expenditure by these companies depends on the current and anticipated market demand for semiconductor devices and the products that incorporate them. Our recurring revenues are driven by increases in our product installed base, the number of semiconductor devices that are tested, and the continuous introduction of new products and technologies by our customers.

On January 30, 2023, we completed the acquisition of MCT, a U.S. based company with its principal manufacturing site in Penang, Malaysia. MCT provides automated solutions for the semiconductor industry and designs, manufactures, markets, services and distributes strip test handlers, film frame handlers and laser mark handlers. On October 2, 2023, we acquired EQT, a Singapore-based company. EQT is a provider of semiconductor test contactors and other test consumables. MCT and EQT are included in Cohu's consolidated results of operations as of each date of acquisition.

During 2023 and into the first quarter of 2024, global macroeconomic and geopolitical factors are shaping the semiconductor industry. In response to the higher cost of capital, many chip companies are cutting costs, reducing employee headcount, and pushing out capital expenditures for additional capacity. For the first quarter ended March 30, 2024, on a sequential, quarter-over-quarter basis, our consolidated net sales declined 21.6% to \$107.6 million due to lower demand for automotive, industrial, mobile (including 5G-related products) and computing semiconductor applications. Based on our ongoing assessment of business conditions and the results from our operations, on February 9, 2024, we made a cash payment of \$29.3 million to repay the remaining outstanding principal of our Term Loan Credit Facility, and we also repurchased 333,504 shares of our common stock for approximately \$10.7 million during the first three months of 2024.

We continue to focus on building a well-balanced and resilient business model and we remain focused on developing core technologies. Our long-term market drivers and market strategy remain intact, and we are encouraged by increased use of semiconductors including the most recent developments in Artificial Intelligence (AI), along with customer traction with our new products. We continue to capture new customers and remain optimistic about the long-term prospects for our business due to the increasing ubiquity of semiconductors, increasing semiconductor complexity, increasing quality demands from semiconductor customers, increasing test intensity and continued proliferation of electronics in a variety of products across the automotive, mobile, industrial, computing, and consumer markets.

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Application of Critical Accounting Estimates and Policies

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

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

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

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

Revenue Recognition: Our net sales are derived from the sale of products and services and are adjusted for estimated returns and allowances, which historically have been insignificant. We recognize revenue when the obligations under the terms of a contract with our customers are satisfied; generally, this occurs with the transfer of control of our systems, non-system products or services. In circumstances where control is not transferred until destination or acceptance, we defer revenue recognition until such events occur. Revenue for established products that have previously satisfied a customer's acceptance requirements is generally recognized upon shipment. In cases where a prior history of customer acceptance cannot be demonstrated or from sales where customer payment dates are not determinable and in the case of new products, revenue and cost of sales are deferred until customer acceptance has been received. Our post-shipment obligations typically include standard warranties. Service revenue is recognized over time as we transfer control to our customer for the related contract or upon completion of the services if they are short-term in nature. Spares, contactor and kit revenue is generally recognized upon shipment. Certain of our equipment sales have multiple performance obligations. These arrangements involve the delivery or performance of multiple performance obligations, and transfer of control of performance obligations may occur at different points in time or over different periods of time. For arrangements containing multiple performance obligations, the revenue relating to the undelivered performance obligation is deferred using the relative standalone selling price method utilizing estimated sales prices until satisfaction of the deferred performance obligation. Unsatisfied performance obligations primarily represent contracts for products with future delivery dates. At March 30, 2024, we had \$6.1 million of revenue expected to be recognized in the future related to performance obligations that were unsatisfied (or partially unsatisfied) for contracts with original expected durations of over one year. As allowed under ASC 606, we have opted to not disclose unsatisfied performance obligations for contracts with original expected durations of less than one year. We generally sell our equipment with a product warranty. The product warranty provides assurance to customers that delivered products are as specified in the contract (an "assurance-type warranty"). Therefore, we account for such product warranties under ASC 460, and not as a separate performance obligation. The transaction price reflects our expectations about the consideration we will be entitled to receive from the customer and may include fixed or variable amounts. Fixed consideration primarily includes sales to customers that are known as of the end of the reporting period. Variable consideration includes sales in which the amount of consideration that we will receive is unknown as of the end of a reporting period. Such consideration primarily includes sales made to certain customers with cumulative tier volume discounts offered. Variable consideration arrangements are rare; however, when they occur, we estimate variable consideration as the expected value to which we expect to be entitled. Included in the transaction price estimate are amounts in which it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration that does not meet revenue recognition criteria is deferred. Our contracts are typically less than one year in duration and we have elected to use the practical expedient available in ASC 606 to expense costs to obtain contracts as they are incurred because they would be amortized over less than one year. Accounts receivable represents our unconditional right to receive consideration from our customer. Payments terms do not exceed one year from the invoice date and therefore do not include a significant financing component. To date, there have been no material impairment losses on accounts receivable. There were no material contract assets or contract liabilities recorded on the condensed consolidated balance sheet in any of the periods presented. On shipments where sales are not recognized, gross profit is generally recorded as deferred profit in the condensed consolidated balance sheet representing the difference between the receivable recorded and the inventory shipped.

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

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

Income Taxes: We estimate our liability for income taxes based on the various jurisdictions where we conduct business. This requires us to estimate our (i) current taxes; (ii) temporary differences that result from differing treatment of certain items for tax and accounting purposes and (iii) unrecognized tax benefits. Temporary differences result in deferred tax assets and liabilities that are reflected in the condensed consolidated balance sheet. The deferred tax assets are reduced by a valuation allowance if, based upon all available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Establishing, reducing or increasing a valuation allowance in an accounting period generally results in an increase or decrease in tax expense in the statement of 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 deferred tax assets consist primarily of research and development costs that are required to be capitalized under IRC Section 174, net of related amortization, reserves and accruals that are not yet deductible for tax, and tax credit and net operating loss carryforwards.

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

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

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We conduct our annual impairment test as of October 1st of each year and have determined there was no impairment as of October 1, 2023, as the estimated fair values of our reporting units exceeded their carrying values on that date. Other events and changes in circumstances may also require goodwill to be tested for impairment between annual measurement dates. As of March 30, 2024, we do not believe that circumstances have occurred that indicate impairment of our goodwill is more-likely-than-not. In the event we determine that an interim goodwill impairment review is required in a future period, the review may result in an impairment charge, which would have a negative impact on our results of operations.

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

During the first three months of fiscal 2024, no events or conditions occurred suggesting an impairment in our goodwill and other intangible assets.

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

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

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

Recent Accounting Pronouncements

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

RESULTS OF OPERATIONS

Recent Transactions Impacting Results of Operations

On January 30, 2023, we completed the acquisition of MCT, and on October 2, 2023 we acquired EQT. MCT and EQT have been included in our condensed consolidated results of operations as of each date of acquisition.

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

	Three Months Ended	
	March 30, 2024	April 1, 2023
Net sales	100.0%	100.0%
Cost of sales	(54.2)%	(51.9)%
Gross margin	45.8%	48.1%
Research and development	(20.8)%	(12.5)%
Selling, general and administrative	(32.6)%	(19.1)%
Amortization of purchased intangible assets	(9.1)%	(4.9)%
Restructuring charges	-%	(0.5)%
Income (loss) from operations	(16.7)%	11.1%

First Quarter of Fiscal 2024 Compared to First Quarter of Fiscal 2023

Net Sales

Our consolidated net sales decreased 40.0% to \$107.6 million in 2024, compared to \$179.4 million in 2023. As compared to the prior year, during the first fiscal quarter of 2024 our net sales declined due to the current macroeconomic environment, which is driving lower demand for automotive, industrial, mobile (including 5G-related products) and computing semiconductor applications. Our consolidated net sales in the first quarter of 2024 also include the net sales of EQT, which Cohu acquired on October 2, 2023, and totaled \$3.8 million.

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

Gross margin consists of net sales less cost of sales. Cost of sales consists primarily of materials, assembly, and test labor, and overhead from operations. Our gross margin can fluctuate due to several factors, including, but not limited to, the mix and volume of products sold, product support costs, material, labor, supplier, logistics and other operating cost changes, changes to inventory reserves or the sale of previously reserved inventory and business volume which impacts the utilization of our manufacturing capacity. Our gross margin, as a percentage of net sales for the first fiscal quarter, was 45.8% in 2024 and 48.1% in 2023. During the first three months of 2024, our gross margin declined compared to 2023 due to lower business volume which impacted our ability to leverage fixed costs.

Our gross margin can be impacted by charges to cost of sales related to excess, obsolete and lower of cost or net realizable value inventory issues. During the first quarter of 2024 and 2023, we recorded charges to cost of sales of \$1.7 million and \$1.9 million for excess and obsolete inventory, respectively. While we believe our reserves for excess and obsolete inventory and lower of cost or net realizable value concerns are adequate to cover known exposures as of March 30, 2024, reductions in customer forecasts or continued modifications to products, because of our failure to meet specifications or other customer requirements, may result in additional charges to operations that could negatively impact our gross margin in future periods.

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

R&D expense consists primarily of salaries and related costs of employees engaged in ongoing research, product design and development activities, costs of engineering materials and supplies and professional consulting expenses. R&D expense was \$22.3 million in fiscal 2024 and \$22.5 million in fiscal 2023 representing 20.8% and 12.5% of net sales, respectively. R&D expense decreased during the first fiscal quarter of 2024 due to lower spending on material costs associated with product development during the current year. Our R&D costs in 2024 also includes \$0.4 million of incremental R&D costs from EQT.

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 \$35.1 million or 32.6% of net sales in fiscal 2024, compared to \$34.2 million or 19.1% in fiscal 2023. The increase in SG&A expense as a percentage of net sales is primarily a result of lower sales in fiscal 2024. In addition, SG&A expense during the first fiscal quarter of 2024 includes \$1.7 million of one-time severance costs resulting from manufacturing transition related to the expansion of our factories in the Philippines and Malaysia, a \$1.0 million impairment charge related to our investment in Fraes-und Technologiezentrum GmbH Frasdorf ("FTZ"), a company based in Germany that provides milling services to one of our wholly owned subsidiaries, \$0.9 million of incremental SG&A costs from the operations of EQT, and \$0.2 million of transaction costs related to our acquisition of MCT and EQT. The first fiscal quarter of fiscal 2023 includes \$0.4 million of transaction costs related to acquisition of MCT and EQT.

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Amortization of Purchased Intangible Assets

Amortization of purchased intangibles is the process of expensing the cost of an intangible asset acquired through a business combination over the projected life of the asset. Amortization of acquisition-related intangible assets was \$9.8 million and \$8.8 million in the first quarter of fiscal 2024 and fiscal 2023, respectively. The increase in expense recorded during the current year was a result of the amortization of acquired intangible assets from the acquisition of EQT.

Restructuring Charges

During the first quarter of 2023, we began a strategic restructuring and integration program in connection with the acquisition of MCT. Restructuring costs incurred in the first fiscal quarter of 2023 relate to the integration of MCT which was acquired on January 30, 2023 and totaled \$0.9 million. Restructuring charges recorded in the first fiscal quarter of 2024 were not material.

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

Interest Expense and Income

Interest expense was \$0.3 million and \$1.1 million in the first fiscal quarter of 2024 and 2023, respectively. On February 9, 2024, we made a cash payment of \$29.3 million to repay the remaining outstanding amounts owed under our Term Loan Credit Facility. We accounted for the transaction as a debt extinguishment, and in the first quarter of fiscal 2024 we also recognized a loss of \$0.2 million due to the recognition of the remaining debt discount and deferred financing costs. The payoff of the Term Loan Credit Facility resulted in lower interest expense in the first quarter of fiscal 2024.

Interest income was \$2.7 million in both the first fiscal quarter of 2024 and 2023.

Income Taxes

We account for income taxes in accordance with ASC 740. The provision or benefit for income taxes is attributable to U.S. federal, state, and foreign income taxes. Our effective tax rate ("ETR") used for interim periods is based on an estimated annual effective tax rate, including the tax effect of items required to be recorded discretely in the interim periods in which those items occur. Our ETR is different than the statutory rate in the U.S. due to foreign income taxed at different rates than the U.S., generation of tax credits, changes in uncertain tax benefit positions, changes to valuation allowances, and the impact of Global Intangible Low-Taxed Income ("GILTI") and the Base Erosion and Anti-abuse Tax ("BEAT"). In addition, we have numerous tax holidays related to our manufacturing operations in Malaysia and the Philippines. The tax holiday periods expire at various times in the future; however, we actively seek to obtain new tax holidays.

Our first quarter ETR reflects the impact of certain foreign earnings taxed at rates higher than the U.S. statutory rate and an increase in the U.S. valuation allowance, primarily attributable to capitalized research and development costs and intangible assets, offset by a reduction in unrecognized tax benefits in certain foreign tax jurisdictions.

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

In accordance with the disclosure requirements as described in ASC 740, we have classified unrecognized tax benefits as non-current income tax liabilities, or a reduction in non-current deferred tax assets, unless expected to be paid within one year. Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

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Net Income (Loss)

As a result of the factors set forth above, our net loss was \$14.6 million for the three months ended March 30, 2024. For the three months ended April 1, 2023 our net income was \$15.7 million.

LIQUIDITY AND CAPITAL RESOURCES

Our business is dependent on capital expenditures by semiconductor manufacturers and test subcontractors that are, in turn, dependent on the current and anticipated market demand for semiconductors. The seasonal and volatile nature of demand for semiconductor equipment, our primary industry, makes estimates of future revenues, results of operations and net cash flows difficult.

Our primary historical source of liquidity and capital resources has been cash flow generated by our operations and we manage our businesses to maximize operating cash flows as our primary source of liquidity. We use cash to fund growth in our operating assets and to fund new products and product enhancements primarily through research and development. As of March 30, 2024, \$153.8 million or 80.5% of our cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we may be required to accrue and pay foreign withholding taxes if we repatriate these funds. Except for working capital requirements in certain jurisdictions, we provide for all withholding and other residual taxes related to unremitted earnings of our foreign subsidiaries.

At March 30, 2024, our total indebtedness, net of discount and deferred financing costs, included \$1.9 million outstanding under Kita's term loans, \$7.3 million outstanding under Cohu GmbH's construction loan and \$1.7 million outstanding under Kita's lines of credit. On February 9, 2024, we made a cash payment of \$29.3 million to repay the remaining outstanding amounts owed under our Term Loan Credit Facility and we repurchased 333,504 shares of our outstanding common stock, to be held as treasury stock, for \$10.7 million, during the first three months of fiscal 2024.

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

Liquidity

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

<i>(in thousands)</i>	March 30, 2024	December 30, 2023	Decrease	Percentage Change
Cash, cash equivalents and short-term investments	\$ 271,322	\$ 335,698	\$ (64,376)	(19.2)%
Working capital	\$ 481,822	\$ 535,397	\$ (53,575)	(10.0)%

Cash Flows

Operating Activities: Operating cash flows for the three months of fiscal 2024 consisted of our net loss, adjusted for non-cash expenses and changes in operating assets and liabilities. These adjustments include impairment charges, depreciation expense on property, plant and equipment, share-based compensation expense, amortization of intangible assets, deferred income taxes, amortization of cloud-based software implementation costs, impairment charge on equity investment, loss on extinguishment of debt, amortization of debt discounts and issuance costs and sales of property, plant and equipment. Our net cash used in operating activities in the first three months of fiscal 2024 totaled \$14.0 million. Net cash used by operating activities was impacted by changes in current assets and liabilities and included an increase in other current assets of \$11.4 million and decreases in accrued compensation, warranty and other liabilities of \$10.8 million, accounts receivable of \$6.8 million, accounts payable of \$3.5 million and income taxes payable of \$3.4 million. Other current assets increased from advance payments for services that will be utilized throughout 2024. Accrued compensation, warranty and other liabilities decreased due to payments of incentive compensation related to the prior year that was paid during the first quarter of 2024. The decreases in accounts receivable and accounts payable were a result of the timing of cash collections on net sales recognized and payment made to suppliers during the first three months of fiscal 2024. The income taxes payable decrease was driven by an excess of payments over accruals.

Investing Activities: Investing cash flows consist primarily of cash used for capital expenditures in support of our business, purchases of investments, business acquisitions and proceeds from investment maturities, business divestitures and asset disposals. Net cash provided by investing activities in the first three months of fiscal 2024 totaled \$6.8 million. In the first three months of fiscal 2024 we generated \$32.0 million from sales and maturities and used \$21.9 million of cash for purchases of short-term investments. We invest our excess cash, in an attempt to seek the highest available return while preserving capital, in short-term investments since excess cash may be required for a business-related purpose. Additions to property, plant and equipment of \$3.3 million were made to support our operating and development activities and include amounts related to the expansion of our factories in the Philippines and Malaysia.

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Financing Activities: Financing cash flows consist primarily of net proceeds from the issuance of common stock under our employee stock purchase plans, repurchases of shares made under our share repurchase program and repayments of debt. We issue restricted stock units and maintain an employee stock purchase plan as components of our overall employee compensation. In the three months of fiscal 2024, cash used to settle the minimum statutory tax withholding requirements on behalf of our employees upon vesting of restricted and performance stock awards, net of proceeds, was \$4.1 million. We made payments totaling \$10.7 million in the first three months of 2024 for shares of our common stock repurchased under our share repurchase program to be held as treasury stock. Repayments of debt during the three months of fiscal 2024 totaled \$29.6 million.

Share Repurchase Program

On October 28, 2021, we announced that our Board of Directors authorized a \$70 million share repurchase program. On October 25, 2022, our Board of Directors authorized an additional \$70 million under the share repurchase program. This share repurchase program was effective as of November 2, 2021, has no expiration date, and the timing of share repurchases and the number of shares of common stock to be repurchased will depend upon prevailing market conditions and other factors. Repurchases under this program will be made using our existing cash resources and may be commenced or suspended from time-to-time at our discretion without prior notice. Repurchases may be made in the open market, through 10b5-1 programs, or in privately negotiated transactions at prevailing market rates in accordance with federal securities laws. For the three months ended March 30, 2024, we repurchased 333,504 shares of our common stock for \$10.7 million to be held as treasury stock. As of March 30, 2024, \$47.6 million of shares of our common stock remained available for us to repurchase under our share repurchase program.

Capital Resources

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

Credit Agreement

On October 1, 2018, we entered into a Credit Agreement providing for a \$350.0 million Term Loan Credit Facility and borrowed the full amount to finance a portion of the Xcerra acquisition. Loans under the Term Loan Credit Facility amortize in equal quarterly installments of 0.25% of the original principal amount, with the balance payable at maturity. All outstanding principal and interest in respect of the Term Loan Credit Facility must be repaid on or before October 1, 2025. The loans under the Term Loan Credit Facility bore interest, at Cohu's option, at a floating annual rate equal to LIBOR plus a margin of 3.00%. On June 16, 2023, in connection with the discontinuation of LIBOR, we entered into an amendment to our Term Loan Credit Facility, which provided for the transition of the benchmark interest rate from LIBOR to SOFR. Effective with the interest period beginning July 1, 2023, LIBOR was replaced with Adjusted Term SOFR, a floating annual rate equal to SOFR plus a margin of 3.0%. At December 30, 2023, the outstanding loan balance, net of discount and deferred financing costs, was \$29.1 million and \$3.4 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets.

On February 9, 2024, we made a cash payment of \$29.3 million to repay the remaining outstanding amounts owed under our Term Loan Credit Facility. We accounted for the transaction as a debt extinguishment, and in the first quarter of fiscal 2024 we recognized a loss of \$0.2 million due to the recognition of the remaining debt discount and deferred financing costs. During the first three months of fiscal 2023, we repurchased \$34.1 million in principal of our Term Loan Credit Facility for \$34.1 million in cash. This resulted in a loss of \$0.4 million reflected in other expense in our condensed consolidated statement of operations and a corresponding \$0.4 million reduction in debt discounts and deferred financing costs in our condensed consolidated balance sheets.

Kita Term Loans

We have a series of term loans with Japanese financial institutions primarily related to the expansion of our facility in Osaka, Japan. The loans are collateralized by the facility and land, carry interest at rates ranging from 0.05% to 0.54%, and expire at various dates through 2034. At March 30, 2024, the outstanding loan balance was \$1.9 million and \$0.2 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 30, 2023, the outstanding loan balance was \$2.1 million and \$0.2 million of the outstanding balance is presented as current installments of long-term debt in our condensed consolidated balance sheets. The term loans are denominated in Japanese Yen and, as a result, amounts disclosed herein will fluctuate because of changes in currency exchange rates.

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Construction Loans

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

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

At March 30, 2024, total outstanding borrowings under the Loan Facilities was \$7.3 million with \$1.0 million of the total outstanding balance being presented as current installments of long-term debt in our condensed consolidated balance sheets. At December 30, 2023, total outstanding borrowings under the Loan Facilities was \$7.7 million with \$1.0 million of the total outstanding balance being presented as current installments of long-term debt in our condensed consolidated balance sheets. The loans are denominated in Euros and, as a result, amounts disclosed herein will fluctuate because of changes in currency exchange rates. The fair value of the debt approximates the carrying value at March 30, 2024.

Lines of Credit

As a result of our acquisition of Kita, we assumed a series of revolving credit facilities with various financial institutions in Japan. The credit facilities renew monthly and provide access to working capital totaling up to 960 million Japanese Yen of which 250 million Japanese Yen was drawn as of March 30, 2024. At March 30, 2024, total borrowings outstanding under the revolving lines of credit were \$1.7 million. As these credit facility agreements renew monthly, they have been included in short-term borrowings in our condensed consolidated balance sheets.

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

Our wholly owned subsidiary in Switzerland has one line of credit which provides borrowings of up to a total of 2.0 million Swiss Francs, a portion of which is reserved for tax guarantees. At March 30, 2024 and December 30, 2023, no amounts were outstanding under this line of credit.

We also have a letter of credit facility ("LC Facility") under which Bank of America, N.A., has agreed to administer the issuance of letters of credit on our behalf. The LC Facility requires us to maintain deposits of cash or other approved investments in amounts that approximate our outstanding letters of credit and contains customary restrictive covenants. In addition, our wholly owned subsidiary, Xcerra, has arrangements with various financial institutions for the issuance of letters of credit and bank guarantees. As of March 30, 2024, \$0.3 million was outstanding under standby letters of credit and bank guarantees.

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

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations: Our significant contractual obligations consist of liabilities for debt, operating leases, unrecognized tax benefits, pensions, post-retirement benefits and warranties. On February 9, 2024, we made a cash payment of \$29.3 million to repay the remaining outstanding amounts owed under our Term Loan Credit Facility. Aside from the repayment of the remaining outstanding principal of our Term Loan Credit Facility, there were no material changes to these obligations outside the ordinary course of business from those disclosed in our Annual Report on Form 10-K for the year ended December 30, 2023.

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

Off-Balance Sheet Arrangements: During the ordinary course of business, we provide standby letters of credit instruments to certain parties as required. As of March 30, 2024, \$0.3 million was outstanding under standby letters of credit.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Investment and Interest Rate Risk.

At March 30, 2024, our investment portfolio included short-term fixed-income investment securities with a fair value of approximately \$80.3 million. These securities are subject to interest rate risk and will likely decline in value if interest rates increase. Our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. As we classify our short-term securities as available-for-sale, no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be credit-related. Due to the relatively short duration of our investment portfolio, an immediate ten percent change in interest rates would have no material impact on our financial condition or results of operations.

We evaluate our investments periodically for possible other-than-temporary losses by reviewing factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and our ability and intent to hold the investment for a period of time sufficient for anticipated recovery of market value. As of March 30, 2024, the cost and fair value of investments we held with loss positions were approximately \$44.7 million and \$44.6 million, respectively. We evaluated the nature of these investments, credit worthiness of the issuer and the duration of these impairments to determine if a credit loss exists. We have the ability and intent to hold these investments to maturity.

Foreign Currency Exchange Risk.

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

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

Fluctuations in currency exchange rates also impact the U.S. Dollar amount of our net investment in foreign operations. The assets and liabilities of our foreign subsidiaries are translated into U.S. Dollars at the exchange rates in effect at the balance sheet date. Income and expense accounts are translated at an average exchange rate during the period which approximates the rates in effect at the transaction dates. The resulting translation adjustments are recorded in stockholders' equity as a component of accumulated other comprehensive loss. As a result of fluctuations in certain foreign currency exchange rates in relation to the U.S. Dollar as of March 30, 2024, compared to December 30, 2023, our stockholders' equity decreased by \$9.4 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 March 30, 2024 would result in an approximate \$34.0 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 March 30, 2024 would result in an approximate \$34.0 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 Control over Financial Reporting. During the three months ended March 30, 2024, we did not make any changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II OTHER INFORMATION
Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

The most significant risk factors applicable to Cohu are described in Part I, Item 1A (Risk Factors) of Cohu’s Annual Report on Form 10-K for the fiscal year ended December 30, 2023 (our “2023 Form 10-K”). There have been no material changes to the risk factors previously disclosed in our 2023 Form 10-K.

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

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

Issuer Purchases of Equity Securities

On October 28, 2021, we announced that our Board of Directors authorized a \$70 million share repurchase program. On October 25, 2022, our Board of Directors authorized an additional \$70 million under the share repurchase program. This share repurchase program was effective as of November 2, 2021 and has no expiration date, and the timing of share repurchases and the number of shares of common stock to be repurchased will depend upon prevailing market conditions and other factors. Repurchases under this program will be made using our existing cash resources and may be commenced or suspended from time-to-time at our discretion without prior notice. Repurchases may be made in the open market, through 10b5-1 programs, or in privately negotiated transactions at prevailing market rates in accordance with federal securities laws. All such repurchased shares and related costs are held as treasury stock and accounted for at trade date using the cost method. During the three months ended March 30, 2024, we repurchased 333,504 shares of our common stock for \$10.7 million to be held as treasury stock. During the three months ended April 1, 2023, we repurchased 99,682 shares of our common stock for \$3.5 million to be held as treasury stock. As of March 30, 2024, \$47.6 million of shares of our common stock remained available for us to repurchase under our share repurchase program.

Share repurchase activity during the first quarter of fiscal 2024 was as follows:

	Total	Weighted		Total Number of	Maximum \$
	Number of	Average	Total	Shares	Value of Shares
	Shares	Price Paid	Purchase	Purchased	That May Yet Be
	Purchased	Per Share ⁽¹⁾	Cost ⁽²⁾	as Part of	Purchased Under
				Publicly	The Programs ⁽³⁾
				Announced	
				Programs ⁽³⁾	
<i>(In thousands except price per share amounts)</i>					
Dec 31 - Jan 27, 2024	90	\$ 33.67	\$ 3,028	90	\$ 55,287
Jan 28 - Feb 24, 2024	45	\$ 32.35	\$ 1,457	45	\$ 53,831
Feb 25 - Mar 30, 2024	199	\$ 31.26	\$ 6,213	199	\$ 47,617
	<u>334</u>	<u>\$ 32.06</u>	<u>\$ 10,698</u>	<u>334</u>	

(1) The weighted average price paid per share of common stock does not include the cost of commissions.

(2) The total purchase cost includes the cost of commissions.

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

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

Rule 10b5-1 Trading Plans

Our directors and executive officers may purchase or sell shares of our common stock in the market from time to time, including pursuant to equity trading plans adopted in accordance with Rule 10b5-1 under the Exchange Act and in compliance with guidelines specified by our insider trading policy. In accordance with Rule 10b5-1 and our insider trading policy, directors, officers and certain employees who, at such time, are not in possession of material non-public information are permitted to enter into written plans that pre-establish amounts, prices and dates (or formula for determining the amounts, prices and dates) of future purchases or sales of our stock, including shares acquired pursuant to our equity incentive plans. Under a Rule 10b5-1 trading plan, a broker executes trades pursuant to parameters established by the director or executive officer when entering into the plan, without further direction from them. The use of these trading plans permits asset diversification as well as personal financial and tax planning. Our directors and executive officers also may buy or sell additional shares outside of a Rule 10b5-1 plan when they are not in possession of material nonpublic information, subject to compliance with SEC rules, the terms of our insider trading policy and certain minimum holding requirements. During the three months ended March 30, 2024, none of our directors or executive officers adopted, modified or terminated a Rule 10b5-1 trading plan.

Transactions by Section 16 directors and officers will be disclosed publicly through Form 144 and Form 4 filings with the SEC to the extent required by law. No non-Rule 10b5-1 trading arrangements (as defined by Item 408(a) of Regulation S-K) were entered into, adopted or terminated by any Section 16 director or officer during the first quarter of 2024.

Item 6.	Exhibits.
31.1	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

COHU, INC.

(Registrant)

Date: May 3, 2024

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

Date: May 3, 2024

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

COHU, INC.
SARBANES-OXLEY ACT SECTION 302(a)
CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Luis A. Müller, certify that:

1. I have reviewed this Form 10-Q of Cohu, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2024

/s/ Luis A. Müller

Luis A. Müller

President & Chief Executive Officer

COHU, INC.
SARBANES-OXLEY ACT SECTION 302(a)
CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Jeffrey D. Jones, certify that:

1. I have reviewed this Form 10-Q of Cohu, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2024

/s/ Jeffrey D. Jones

Jeffrey D. Jones

Senior Vice President Finance & Chief Financial Officer

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

In connection with the accompanying Quarterly Report of Cohu, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended March 30, 2024 (the "Report"), I, Luis A. Müller, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

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

Date: May 3, 2024

/s/ Luis A. Müller

Luis A. Müller,
President & Chief Executive Officer

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

In connection with the accompanying Quarterly Report of Cohu, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended March 30, 2024 (the "Report"), I, Jeffrey D. Jones, Vice President Finance & Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

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

Date: May 3, 2024

/s/ Jeffrey D. Jones

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