

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 26, 2015
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-4298

COHU, INC.

(Exact name of registrant as specified in its charter)

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

95-1934119
(I.R.S. Employer Identification No.)

12367 Crosthwaite Circle, Poway, California
(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>Name of Exchange on Which Registered</u>
Common Stock, \$1.00 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

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

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

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

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

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

The aggregate market value of voting stock held by nonaffiliates of the registrant was approximately \$193,000,000 based on the closing stock price as reported by the NASDAQ Stock Market LLC as of June 26, 2015. Shares of common stock held by each officer and director and by each person or group who owns 5% or more of the outstanding common stock have been excluded in that such persons or groups may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 11, 2016 the Registrant had 26,249,438 shares of its \$1.00 par value common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Cohu, Inc.'s 2016 Annual Meeting of Stockholders to be held on May 11, 2016, and to be filed pursuant to Regulation 14A within 120 days after registrant's fiscal year ended December 26, 2015, are incorporated by reference into Part III of this Report.

COHU, INC.

FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 26, 2015

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

PART I

Item 1. Business.

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

Over the last year and a half we increased the focus on our core business, selling our mobile microwave communications equipment business, Broadcast Microwave Services, Inc. ("BMS") on June 10, 2015 and our video camera business, Cohu Electronics on June 6, 2014. Our decision to sell BMS and Cohu Electronics resulted from the determination that these businesses were no longer a strategic fit within our organization. The operating results of BMS and Cohu Electronics are being presented as discontinued operations and all prior period amounts have been reclassified accordingly. Unless otherwise noted all amounts presented are from continuing operations.

Subsequent to the sale of BMS and Cohu Electronics, we have one reportable segment, semiconductor equipment. Financial information on our reportable segment for each of the last three years is included in Note 8, "Segment and Geographic Information" in Part IV, Item 15(a) of this Form 10-K.

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

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

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

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

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

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

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

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

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

Our Products

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

Pick-and-place

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

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

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

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

Delta Eclipse is our next generation pick-and-place platform tailored for Fabless and Outsourced Semiconductor Assembly and Test (OSAT) customers, as well as integrated device manufacturers (IDMs). This is a highly configurable platform capable of handling general purpose integrated circuits to advanced computing and mobile processors that require Cohu's **T-Core** active thermal control during test.

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

Gravity-Feed

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

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

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

Test-in-strip

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

Turret

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

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

Micro-Electro-Mechanical Systems ("MEMS")

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

Thermal Sub-Systems

We have adapted our proprietary thermal control technology for use by integrated circuit manufacturers in high performance burn-in and system level test. The **Delta T-Core** thermal sub-systems provide fast and accurate temperature control of the integrated circuit during the testing process using the same technology available in the Pyramid handler. T-Core is also used in engineering device characterization applications.

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

Contactors

We design, manufacture, sell and support various lines of test contactor solutions. These are consumable, electro-mechanical assemblies that connect the device under test, inside our test handlers, and the automated test equipment.

Spares

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

Tooling (kits)

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

Sales by Product Line

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

	2015	2014	2013
Semiconductor test handler systems	47%	47%	40%
Thermal sub-systems	7%	9%	8%
Spares, tooling (kits) and service	46%	44%	52%

Customers

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

	2015	2014	2013
Intel	18.0%	15.7%	18.5%
NXP Semiconductors N.V. ⁽¹⁾	11.4%	11.4%	13.5%

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

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

Additional financial information on revenues from external customers by geographic area for each of the last three years is included in Note 8, "Segment and Geographic Information" in Part IV, Item 15(a) of this Form 10-K.

Sales and Marketing

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

Competition

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

Backlog

Our backlog of unfilled orders for products, was \$66.5 million at December 26, 2015 and \$66.8 million at December 27, 2014.

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

Manufacturing and Raw Materials

Our principal manufacturing operations are currently located in Poway, California (Delta); Laguna, Philippines (Delta-kits, handler sub-assemblies and contactors); Kolbermoor, Germany (Rasco); Malacca, Malaysia (Delta, Ismeca and Rasco); and Suzhou, China (Ismeca-kits).

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

Patents and Trademarks

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

Research and Development

Research and development activities are carried on in our various subsidiaries and are directed toward development of new products and equipment, as well as enhancements to existing products and equipment. Our total research and development expense was \$33.1 million in 2015, \$36.0 million in 2014 and \$40.5 million in 2013.

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

Environmental Laws

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

Executive Officers of the Registrant

The following sets forth the names, ages, positions and offices held by all executive officers of Cohu as of February 11, 2016. Executive Officers serve at the discretion of the Board of Directors, until their successors are appointed.

Name	Age	Position
Luis A. Müller	46	President and Chief Executive Officer
Jeffrey D. Jones	54	Vice President, Finance and Chief Financial Officer
John H. Allen	64	Vice President, Administration
Hock W. Chiang	58	Vice President Global Sales & Service

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

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

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

Mr. Chiang has been employed by Cohu since October 2012 as Vice President, Global Sales & Service for Cohu's Semiconductor Equipment Group. Prior to joining Cohu, Mr. Chiang served as a Director for AXElite Technology Corporation. Additionally, from 1995 through 2011, Mr. Chiang held a variety of positions at Teradyne, Inc. ("Teradyne") including Director – Asia SOC Marketing & New Business Development, Managing Director of Teradyne's Singapore and China operations and Director of Worldwide Field Total Quality Management.

Employees

At December 26, 2015, we had approximately 1,600 employees. Our employee headcount has fluctuated in the last five years primarily due to the volatile business conditions in the semiconductor equipment industry, the acquisitions of Rasco and Ismeca, and the divestiture of Broadcast Microwave Services and Cohu's Electronics. Our employees in the United States and most locations in Asia are not covered by collective bargaining agreements, however, certain employees at Rasco's facility in Kolbermoor, Germany, are represented by a works council, employees at Ismeca's facility La Chaux-de-Fonds, Switzerland are members of the micro-technology and Swiss watch trade union and certain employees in Ismeca's China operation belong to local trade unions. We have not experienced any work stoppages and consider our relations with our employees to be good. We believe that a great part of our future success will depend on our continued ability to attract and retain qualified employees. Competition for the services of certain personnel, particularly those with technical skills, is intense. There can be no assurance that we will be able to attract, hire, assimilate and retain a sufficient number of qualified employees.

Available Information

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

Item 1A. Risk Factors.

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

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

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

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

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

- difficulties and increased costs in connection with integration of the personnel, operations, technologies and products of acquired businesses;
- increasing the scope, geographic diversity and complexity of our business;
- diversion of management's attention from other operational matters;
- the potential loss of key employees or customers of Cohu or acquired businesses;
- lack of synergy, or the inability to realize expected synergies, resulting from the acquisition;
- failure to commercialize purchased technology; and
- the impairment of acquired intangible assets and goodwill that could result in significant charges to operating results in future periods.

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

Mergers, acquisitions and investments are inherently risky and the inability to effectively manage these risks could materially and adversely affect our business, financial condition and results of operations. At December 26, 2015 we had goodwill and net purchased intangible assets balances of \$60.3 million and \$25.3 million, respectively.

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

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

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

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

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

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

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

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

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

The semiconductor industry we serve is highly volatile and unpredictable.

Visibility into our markets is limited. The semiconductor equipment business is highly dependent on the overall strength of the semiconductor industry. Historically, the semiconductor industry has been highly cyclical with recurring periods of oversupply and excess capacity, which often have had a significant effect on the semiconductor industry’s demand for capital equipment, including equipment of the type we manufacture and market. We anticipate that the markets for newer generations of semiconductors and semiconductor equipment may also be subject to similar cycles and severe downturns. Any significant reductions in capital equipment investment by semiconductor integrated device manufacturers and test subcontractors will materially and adversely affect our business, financial position and results of operations. In addition, the volatile and unpredictable nature of semiconductor equipment demand has in the past and may in the future expose us to significant excess and obsolete and lower of cost or market inventory write-offs and reserve requirements. In 2015, 2014 and 2013, we recorded pre-tax inventory-related charges of approximately \$2.4 million, \$2.6 million, and \$7.1 million, respectively, primarily as a result of changes in customer forecasts.

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

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

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

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

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

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

Semiconductor equipment and processes are subject to rapid technological change. We believe that our future success will depend in part on our ability to enhance existing products and develop new products with improved performance capabilities. We expect to continue to invest heavily in research and development and must manage product transitions successfully, as introductions of new products, including the products obtained in our acquisitions, may adversely impact sales and/or margins of existing products. In addition, the introduction of new products by us or by our competitors, the concentration of our revenues in a limited number of large customers, the migration to new semiconductor testing methodologies and the custom nature of our inventory parts increases the risk that our established products and related inventory may become obsolete, resulting in significant excess and obsolete inventory exposure. This increased exposure resulted in significant charges to operations during each of the years in the three-year period ended December 26, 2015. Future inventory write-offs and increased inventory reserve requirements could have a material adverse impact on our results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

The loss of key personnel could adversely impact our business.

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

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

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

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

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

Unanticipated changes in our tax provisions or exposure to additional income tax liabilities could affect our profitability.

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

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

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

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

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

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

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

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

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

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

- cyclical nature of the semiconductor equipment industry;
- timing and amount of orders from customers and shipments to customers;
- inability to recognize revenue due to accounting requirements;
- inventory writedowns;
- inability to deliver solutions as expected by our customers; and
- intangible and deferred tax asset writedowns.

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

We have experienced significant volatility in our stock price.

A variety of factors may cause the price of our stock to be volatile. In recent years, the stock market in general, and the market for shares of high-technology companies in particular, including ours, have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. During the last three years the price of our common stock has ranged from \$13.84 to \$8.63. The price of our stock may be more volatile than the stock of other companies due to, among other factors, the unpredictable and cyclical nature of the semiconductor industry, our significant customer concentration, intense competition in the test handler industry, our limited backlog and our relatively low daily stock trading volume. The market price of our common stock is likely to continue to fluctuate significantly in the future, including fluctuations related and unrelated to our performance.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Certain information concerning our principal properties at December 26, 2015, identified by business segment is set forth below:

Location	Approximate Sq. Footage	Ownership
Poway, California ⁽¹⁾	340,000	Leased
Kolbermoor, Germany	40,000	Owned
Malacca, Malaysia	84,000	Leased
Calamba City, Laguna, Philippines	51,000	Leased
La Chaux-de-Fonds, Switzerland	34,000	Leased
Suzhou, China	6,000	Leased

(1) Cohu Corporate offices. On December 4, 2015, we completed the sale of our headquarters facility located in Poway, California. In December 2016, we will only lease approximately 147,000 square feet of the Poway facility that we anticipate Cohu and our wholly owned subsidiary, Delta Design, Inc. will consolidate into. Additional information related to the sale-leaseback of the Poway facility is included in Note 3, "Sale-leaseback of Poway Facility" in Part IV, Item 15(a) of this Form 10-K.

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

Item 3. Legal Proceedings.

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

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Market Information

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

	Fiscal 2015		Fiscal 2014	
	High	Low	High	Low
First Quarter	\$ 12.10	\$ 10.28	\$ 11.36	\$ 9.26
Second Quarter	\$ 13.84	\$ 10.17	\$ 11.35	\$ 9.73
Third Quarter	\$ 13.49	\$ 9.14	\$ 13.08	\$ 10.12
Fourth Quarter	\$ 13.43	\$ 9.38	\$ 12.46	\$ 9.67

Holders

At February 11, 2016, Cohu had 461 stockholders of record.

Dividends

We have paid consecutive quarterly dividends since 1977 and, as discussed below, expect to continue doing so. Cash dividends, per share, declared in 2015 and 2014 were as follows:

	Fiscal 2015	Fiscal 2014
First Quarter	\$ 0.06	\$ 0.06
Second Quarter	\$ 0.06	\$ 0.06
Third Quarter	\$ 0.06	\$ 0.06
Fourth Quarter	\$ 0.06	\$ 0.06
Total	\$ 0.24	\$ 0.24

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

Equity Compensation Plan Information

The following table summarizes information with respect to equity awards under Cohu’s equity compensation plans at December 26, 2015 (*in thousands, except per share amounts*):

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) (1)	Weighted average exercise price of outstanding options, warrants and rights (b) (2)	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a))(c) (3)
Equity compensation plans approved by security holders	3,419	\$ 11.25	3,067
Equity compensation plans not approved by security holders	-	-	-
	3,419	\$ 11.25	3,067

(1) Includes options, restricted stock units (“RSUs”) and performance stock units (“PSUs”) outstanding under Cohu’s equity incentive plans. No stock warrants or other rights were outstanding as of December 26, 2015.

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

(3) Includes 811,063 shares of common stock reserved for future issuance under the Cohu 1997 Employee Stock Purchase Plan.

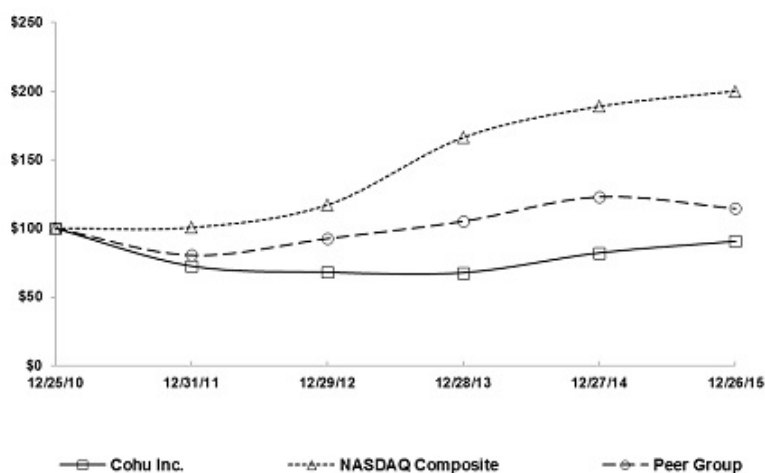
For further details regarding Cohu’s equity compensation plans, see Note 6, “Employee Benefit Plans”, included in Part IV, Item 15(a) of this Form 10-K.

Comparative Stock Performance Graph

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

The graph below compares the cumulative total stockholder return on the common stock of Cohu for the last five fiscal years with the cumulative total return on a custom Peer Group Index and a NASDAQ Market Index over the same period (assuming the investment of \$100 in Cohu’s common stock, Peer Group Index and NASDAQ Market Index on December 25, 2010 and reinvestment of all dividends). The custom Peer Group Index is comprised of the peer group companies associated with our performance stock units issued under our equity incentive plan. In 2015 the custom Peer Group Index was comprised of Advanced Energy Industries Inc., Advantest Corp, ASM Pacific Technology Ltd, Axcelis Technologies Inc., BE Semiconductor Industries NV, Brooks Automation Inc., Cabot Microelectronics Corp, Camtek Ltd, Cascade Microtech Inc., Electro Scientific Industries Inc., FormFactor Inc., Kulicke and Soffa Industries Inc., Mattson Technology Inc., MKS Instruments Inc., Nanometrics Inc., Newport Corp, Photronics Inc., Rudolph Technologies Inc., Teradyne Inc., Tessera Technologies Inc., Ultra Clean Holdings Inc., Ultratech Inc. and Xcerra Corp.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
Among Cohu Inc., the NASDAQ Composite Index,
and a Custom Peer Group



	2010	2011	2012	2013	2014	2015
Cohu, Inc.	\$ 100	\$ 73	\$ 68	\$ 68	\$ 82	\$ 91
NASDAQ Index	\$ 100	\$ 101	\$ 117	\$ 166	\$ 189	\$ 200
Custom Peer Group	\$ 100	\$ 80	\$ 93	\$ 105	\$ 123	\$ 114

Item 6. Selected Financial Data.

The following selected financial data should be read in conjunction with Cohu's consolidated financial statements and notes thereto included in Part IV, Item 15(a) and with management's discussion and analysis of financial condition and results of operations, included in Part II, Item 7. In June 2015, we sold our mobile microwave communications equipment business and in June 2014, we sold our video camera business. The operating results of these businesses are being presented as discontinued operations for all periods presented. Additional information related to the sale of these businesses is included in Note 2, "Discontinued Operations" in Part IV, Item 15(a) of this Form 10-K. On December 31, 2012, we purchased Ismeca Semiconductor Holding SA ("Ismeca") and the results of its operations have been included in our consolidated financial statements since that date.

Years Ended, <i>(in thousands, except per share data)</i>	Dec. 26 2015 ⁽¹⁾	Dec. 27 2014	Dec. 28 2013	Dec. 29 2012	Dec. 31 2011 ⁽²⁾
Consolidated Statement of Operations Data:					
Net sales	\$ 269,654	\$ 316,629	\$ 214,511	\$ 179,449	\$ 260,648
Income (loss) from continuing operations	\$ 5,792	\$ 14,780	\$ (28,548)	\$ (11,255)	\$ 13,629
Net income (loss)	\$ 250	\$ 8,708	\$ (33,418)	\$ (12,243)	\$ 15,719
Income (loss) from continuing operations - basic	\$ 0.22	\$ 0.58	\$ (1.15)	\$ (0.46)	\$ 0.56
Income (loss) from continuing operations - diluted	\$ 0.22	\$ 0.57	\$ (1.15)	\$ (0.46)	\$ 0.56
Net income (loss) - basic	\$ 0.01	\$ 0.34	\$ (1.34)	\$ (0.50)	\$ 0.65
Net income (loss) - diluted	\$ 0.01	\$ 0.33	\$ (1.34)	\$ (0.50)	\$ 0.64
Cash dividends per share, paid quarterly	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24
Consolidated Balance Sheet Data:					
Total Consolidated Assets ⁽³⁾	\$ 345,346	\$ 344,765	\$ 345,423	\$ 334,873	\$ 361,608
Working Capital ⁽³⁾	\$ 171,272	\$ 142,194	\$ 125,837	\$ 184,703	\$ 191,945

(1) The year ended December 26, 2015 includes a gain on the sale of facility totaling \$3.2 million.

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

(3) Balances for 2014 and 2015 are impacted by reclassifications of deferred income taxes. See Note 1, "Summary of Significant Accounting Policies" in Part IV, Item 15(a) of this Form 10-K.

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

OVERVIEW

Cohu is a leading supplier of semiconductor test and inspection handlers, micro-electro mechanical system (MEMS) test modules, test contactors and thermal sub-systems used by global semiconductor manufacturers and test subcontractors. Our business is significantly dependent on capital expenditures by semiconductor manufacturers and test subcontractors, which in turn is dependent on the current and anticipated market demand for semiconductors that is subject to cyclical trends. We expect that the semiconductor equipment industry will continue to be cyclical and volatile in part because consumer electronics, the principal end market for integrated circuits, is a highly dynamic industry and demand has traditionally fluctuated.

Orders for semiconductor test and assembly equipment as reported by Semiconductor Equipment and Materials International (SEMI) reached a plateau in April 2015 and the global demand for back-end equipment was down each month sequentially, until rebounding in November and December. We monitor back-end equipment utilization on our customers' test floors. While current back-end equipment utilization is below the level that typically triggers capacity additions we are encouraged by what we consider to be relatively high levels of utilization at our integrated device manufacturer (IDM) customers. We believe some customers are being cautious due to macro-economic environment uncertainty in Europe and China, which impacts consumer confidence and spending. Despite the near term market softness, we remain optimistic about the long-term prospects for the semiconductor equipment industry due to the increasing technological functionality of mobile devices, growing integrated circuit content in automotive, consumer and industrial applications, and the projected adoption of high brightness LEDs in general lighting. We are focused on growing our market share in the mobility, automotive and solid state markets and expanding into the test contacting and wafer level package test markets.

Application of Critical Accounting Estimates and Policies

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

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

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

Revenue Recognition: We generally recognize revenue upon shipment and title passage for established products (i.e., those that have previously satisfied customer acceptance requirements) that provide for full payment tied to shipment. Revenue for products that have not previously satisfied customer acceptance requirements or from sales where customer payment dates are not determinable is recognized upon customer acceptance. In certain instances, customer payment terms may provide that a minority portion (e.g. up to 20%) of the equipment purchase price be paid only upon customer acceptance. In those situations, the majority portion (e.g. 80%) of revenue where the contingent payment is tied to shipment and the entire product cost of sale are recognized upon shipment and passage of title and the minority portion of the purchase price related to customer acceptance is deferred and recognized upon receipt of customer acceptance. For arrangements containing multiple elements the revenue relating to the undelivered elements is deferred using the relative selling price method utilizing estimated sales prices until delivery of the deferred elements. We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or adjustment. On shipments where sales are not recognized, gross profit is generally recorded as deferred profit in our consolidated balance sheet, representing the difference between the receivable recorded and the inventory shipped.

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

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

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

Income Taxes: We estimate our liability for income taxes based on the various jurisdictions where we conduct business. This requires us to estimate our (i) current taxes; (ii) temporary differences that result from differing treatment of certain items for tax and accounting purposes and (iii) unrecognized tax benefits. Temporary differences result in deferred tax assets and liabilities that are reflected in the consolidated balance sheet. The deferred tax assets are reduced by a valuation allowance if, based upon all available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Establishing, reducing or increasing a valuation allowance in an accounting period generally results in an increase or decrease in tax expense in the statement of operations. We must make significant judgments to determine the provision for income taxes, deferred tax assets and liabilities, unrecognized tax benefits and any valuation allowance to be recorded against deferred tax assets. Our gross deferred tax asset balance as of December 26, 2015 was approximately \$45.4 million, with a valuation allowance of approximately \$42.3 million. Our deferred tax assets consist primarily of reserves and accruals that are not yet deductible for tax and tax credit and net operating loss carry-forwards.

Segment Information: We applied the provisions of Accounting Standards Codification (“ASC”) Topic 280, *Segment Reporting*, (“ASC 280”), which sets forth a management approach to segment reporting and establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products, major customers and the geographies in which the entity holds material assets and reports revenue. An operating segment is defined as a component that engages in business activities whose operating results are reviewed by the chief operating decision maker and for which discrete financial information is available. Based on the provisions of ASC 280, we have determined that our identified operating segments qualify for aggregation under ASC 280 due to similarities in their customers, their economic characteristics, and the nature of products and services provided. As a result, we report in one segment, semiconductor equipment.

Goodwill, Purchased Intangible Assets and Other Long-lived Assets: We evaluate goodwill for impairment annually on October 1st of each year and when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. As a part of our annual assessment process for 2015 we performed a qualitative assessment to determine whether current events or changes in circumstances lead us to a determination that it is more likely than not (defined as a likelihood of more than 50 percent) that the fair value of our reporting unit is less than its carrying amount. Under this approach, absent a qualitative determination that the fair value of our reporting unit is more likely than not to be less than its carrying value, we do not need to proceed to the traditional estimated fair value test for that asset, which would involve comparing the book value of net assets to the fair value of our identified reporting unit.

As of October 1, 2015, the results of our qualitative assessment indicated there was no impairment.

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

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

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

Recent Accounting Pronouncements: For a description of accounting changes and recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see Note 1, "Recent Accounting Pronouncements" in Part IV, Item 15(a) of this Form 10-K.

RESULTS OF OPERATIONS

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

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

	2015	2014	2013
Net sales	100.0%	100.0%	100.0%
Cost of sales	(67.0)	(66.5)	(73.2)
Gross margin	33.0	33.5	26.8
Research and development	(12.3)	(11.4)	(18.9)
Selling, general and administrative	(19.0)	(16.0)	(22.3)
Gain on sale of facility	1.2	-	-
Income (loss) from operations	2.9%	6.1%	(14.4)%

2015 Compared to 2014

Net Sales

Cohu's consolidated net sales decreased 14.8% from \$316.6 million in 2014 to \$269.7 million in 2015 as a result of decreased business volume. Global demand for back-end semiconductor test and assembly equipment is highly cyclical and 2015 customer demand was down from the previous year and consistent with the broader market, our sales were lower year-over-year.

Gross Margin

Gross margin consists of net sales less cost of sales. Cost of sales consists primarily of the materials, assembly and test labor and overhead from operations. Our gross margin can fluctuate due to a number of factors, including, but not limited to, the mix of products sold, product support costs, increase to inventory reserves or the sale of previously reserved inventory and utilization of manufacturing capacity. Our gross margin, as a percentage of net sales, decreased to 33.0% in 2015 from 33.5% in 2014.

We compute the majority of our excess and obsolete inventory reserve requirements using a one-year inventory usage forecast. During 2015 and 2014, we recorded net charges to cost of sales of approximately \$2.4 million and \$2.6 million, respectively, for excess and obsolete inventory. While we believe our reserves for excess and obsolete inventory and lower of cost or market concerns are adequate to cover known exposures at December 26, 2015, reductions in customer forecasts or continued modifications to products, as a result of our failure to meet specifications or other customer requirements, may result in additional charges to operations that could negatively impact our gross margin in future periods.

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

R&D expense consists primarily of salaries and related costs of employees engaged in ongoing research, product design and development activities, costs of engineering materials and supplies and professional consulting expenses. Our future operating results depend, to a considerable extent, on our ability to maintain a competitive advantage in the products we provide, and historically we have maintained our commitment to investing in R&D in order to be able to continue to offer new products to our customers. R&D expense in 2015 was \$33.1 million, or 12.3% of net sales, decreasing from \$36.0 million, or 11.4% of net sales in 2014. The reduction in 2015 was a result of the completion of certain development programs, as planned, and headcount reductions.

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

SG&A expense consists primarily of salaries and benefit costs of employees, commission expense for independent sales representatives, product promotion and costs of professional services. SG&A expense as a percentage of net sales increased to 19.0% in 2015, from 16.0% in 2014, increasing from \$50.6 million in 2014 to \$51.2 million in 2015. We have benefitted from the strengthening of the U.S. Dollar, which resulted in the recognition of \$1.4 million and \$2.0 million in foreign currency gains in 2015 and 2014 respectively. We incurred \$1.0 million and \$1.4 million of costs in connection with transitioning our manufacturing to Asia and employee severance, in 2015 and 2014, respectively. In 2015 we recognized an additional \$1.1 million of employee share based compensation expense. This amount was driven primarily by the number of employee stock options and restricted and performance share awards subject to vesting during the period and the corresponding valuation that was established on the date of grant.

Gain on Sale of Facility

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

Income Taxes

The income tax provision expressed as a percentage of pre-tax income in 2015 and 2014 was 27.6% and 23.9%, respectively. The income tax provision for the years ended December 26, 2015 and December 27, 2014 differs from the U.S. federal statutory rate primarily due to tax credits, changes in the valuation allowance on our deferred tax assets, foreign income taxed at different rates and other factors.

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

In assessing whether a valuation allowance is required, significant weight is to be given to evidence that can be objectively verified. We have evaluated our DTAs each reporting period, including an assessment of our cumulative income or loss over the prior three-year period and future periods, to determine if a valuation allowance was required. A significant negative factor in our assessment was Cohu’s three-year cumulative U.S. loss history at the end of various fiscal periods including 2015.

As a result of our cumulative, three-year U.S. GAAP pretax loss from continuing operations of approximately \$27.3 million at the end of 2015, and our U.S. loss in 2015, we were unable to conclude at December 26, 2015 that it was “more likely than not” that our U.S. DTAs would be realized. We will evaluate the realizability of our DTAs at the end of each quarterly reporting period in 2016 and should circumstances change it is possible the remaining valuation allowance, or a portion thereof, will be reversed in a future period.

Our valuation allowance on our DTAs at December 26, 2015 and December 27, 2014 was approximately \$42.3 million and \$37.0 million, respectively. The remaining gross DTAs for which a valuation allowance was not recorded are realizable primarily through future reversals of existing taxable temporary differences.

For a full reconciliation of our effective tax rate to the U.S. federal statutory rate and further explanation of our provision for income taxes, see Note 7, "Income Taxes", included in Part IV, Item 15(a) of this Form 10-K, which is incorporated herein by reference.

Income from Continuing Operations and Net Income

As a result of the factors set forth above, our income from continuing operations was \$5.8 million in 2015, compared to \$14.8 million in 2014. Including the results of our discontinued operations, our net income in 2015 was \$0.3 million as compared to \$8.7 million in 2014.

2014 Compared to 2013

Net Sales

Cohu's consolidated net sales increased 47.6% from \$214.5 million in 2013 to \$316.6 million in 2014. Our sales in 2014 benefitted from a ramp in customer demand and spending on test equipment which resulted in increased shipments of our products.

Gross Margin

Our gross margin, as a percentage of net sales, increased to 33.5% in 2014 from 26.8% in 2013. Improvement in our gross margin, resulted from better operating leverage as a result of increased business volume, the transition of our supply chain and manufacturing activities to Asia, favorable product mix and lower charges to cost of sales related to excess, obsolete and lower of cost or market inventory adjustments. During 2014 and 2013, we recorded net charges to cost of sales of approximately \$2.6 million and \$7.1 million, respectively, for excess and obsolete inventory. Additionally, 2013 gross margin was negatively impacted by \$1.0 million of inventory step-up costs recorded during the year and a one-time impact that resulted from Ismecca's adoption of Cohu's revenue recognition policy subsequent to our acquisition.

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

R&D expense in 2014 was \$36.0 million or 11.4% of net sales decreasing from \$40.5 million or 18.9% of net sales, in 2013. The decrease in 2014 expense was a result of product development programs that had concluded or were nearing completion as planned and headcount reductions.

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

SG&A expense as a percentage of net sales decreased to 16.0% in 2014, from 22.3% in 2013, increasing in absolute dollars from \$47.9 million in 2013 to \$50.6 million in 2014. The increase in 2014 resulted from increased business volume and a \$0.9 million increase in employee share based compensation expense. SG&A expense benefitted from the strengthening of the U.S. Dollar in 2014 and, as a result, we recorded \$2.0 million in foreign currency gains. The impact of foreign currency gains and losses recorded in 2013 was not significant. We incurred \$1.4 million and \$1.7 million of manufacturing transition and employee severance costs in 2014 and 2013, respectively. SG&A expense in 2013 also included \$0.4 million of acquisition related costs incurred in connection with completing the purchase of Ismecca.

Income Taxes

The income tax provision expressed as a percentage of pre-tax income in 2014 was 23.9% and income tax benefit expressed as a percentage of pre-tax loss in 2013 was 7.7%. The income tax provision and benefit for the years ended December 27, 2014 and December 28, 2013 differs from the U.S. federal statutory rate primarily due to tax credits, changes in the valuation allowance on our deferred tax assets, foreign income taxed at different rates, and other factors.

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

As a result of the factors set forth above, our income from continuing operations was \$14.8 million in 2014, compared to a loss of \$28.5 million in 2013. Including the results of our discontinued microwave equipment and video camera segments, our net income in 2014 was \$8.7 million as compared to a net loss of \$33.4 million in 2013.

LIQUIDITY AND CAPITAL RESOURCES

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

Our primary historical source of liquidity and capital resources has been cash flow generated by our operations and we manage our business to maximize operating cash flows as our primary source of liquidity. We use cash to fund growth in our operating assets and to fund new products and product enhancements primarily through research and development. We believe that our sources of liquidity will be sufficient to satisfy our anticipated cash requirements through at least the next 12 months. Our liquidity could be negatively affected by a decrease in demand for our products. In addition, we may make acquisitions or increase our capital expenditures and may need to raise additional capital through debt or equity financing to provide for greater flexibility to fund these activities. Additional financing may not be available or on terms favorable to us.

Liquidity

Working Capital: The following summarizes our cash, cash equivalents, short-term investments and working capital at December 26, 2015 and December 27, 2014:

<i>(in thousands)</i>	2015	2014	Increase	Percentage Change
Cash, cash equivalents and short-term investments	\$ 117,022	\$ 72,040	\$ 44,982	62%
Working capital	\$ 171,272	\$ 142,194	\$ 29,078	20%

As of December 26, 2015, \$68.0 million of our cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we may be required to accrue and pay U.S. taxes or foreign withholding taxes if we repatriate these funds. Our intent is to indefinitely reinvest these funds in our foreign operations and we have no current plans that would require us to repatriate these funds to the U.S.

Cash Flows

Operating Activities: Cash generated from operating activities consists of net income or loss adjusted for non-cash expenses and changes in operating assets and liabilities. Adjustments include the gain recognized on the sale of our facility, the loss from our divestiture of BMS, depreciation expense on property, plant and equipment, share-based compensation expense, amortization of intangible assets and deferred income taxes. Our net cash flows provided by operating activities in 2015 totaled \$21.5 million compared to \$19.7 million in 2014. Cash provided by operating activities also was impacted by changes in current assets and liabilities which, excluding the impact of the sale of BMS, included decreases in accounts receivable of \$9.0 million; accrued compensation, warranty and other liabilities of \$3.7 million and deferred profit of \$3.1 million and increase in inventories of \$5.7 million. The reduction in accounts receivables, accrued compensation, warranty and other liabilities resulted from lower business volume and a resulting decrease in incentive compensation accruals and the timing of cash payments made to our employees. Deferred profit decreased as a result of the recognition of previously deferred revenue of equipment shipments made in accordance with our revenue recognition policy. Material purchases made to fulfill orders for equipment to be delivered in 2016 led to an increase in our inventory balances.

Investing Activities: Investing cash flows consist primarily of cash used for capital expenditures in support of our business, purchases of investments and business acquisitions and proceeds from investment maturities, asset disposals and business divestitures. Our net cash provided by investing activities in 2015 totaled \$31.0 million and was primarily the result of the sale-leaseback of our Poway facility, which provided us with \$33.3 million, and the sale of BMS for \$4.9 million. The sale-leaseback of our Poway facility allows us to reduce the utilized space to better fit our current needs, as we have transitioned a significant portion of our manufacturing activities to Asia. The decision to sell BMS resulted from the determination that this industry segment was not a strategic fit within our organization. Additions to property, plant and equipment in 2015, were \$6.6 million and were made to support our operating and development activities.

Financing Activities: Cash used in financing activities consisted of amounts distributed to our stockholders in the form of cash dividends. During 2015, we paid dividends totaling \$6.2 million, or \$0.24 per common share. On February 11, 2016 we announced a cash dividend of \$0.06 per share on our common stock, payable on, April 15, 2016 to stockholders of record as of March 1, 2016. We intend to continue to pay quarterly dividends subject to capital availability and periodic determinations by our Board of Directors that cash dividends are in the best interests of our stockholders. Partially offsetting cash used in the payment of dividends were the net proceeds from the issuance of common stock under our equity incentive and employee stock purchase plans, which totaled \$1.2 million during 2015. We issue stock options and maintain an employee stock purchase plan as components of our overall employee compensation.

Capital Resources

We have a secured letter of credit facility (the “Secured Facility”) under which Bank of America, N.A., has agreed to administer the issuance of letters of credit on behalf of Cohu and our subsidiaries. The Secured Facility requires us to maintain deposits of cash or other approved investments, which serve as collateral, in amounts that approximate our outstanding standby letters of credit. As of December 26, 2015, we had approximately \$0.2 million of standby letters of credit outstanding. Our wholly owned subsidiary Ismeca Semiconductor Holdings SA (“Ismeca”) has agreements with Credit Suisse and UBS (the “Ismeca Facility”) under which they administer lines of credit on behalf of Ismeca. Total borrowings available under the Ismeca Facility are 2.5 million Swiss Francs and at December 26, 2015 no amounts were outstanding.

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

Contractual Obligations

The following table summarizes our significant contractual obligations at December 26, 2015, and the effect such obligations are expected to have on our liquidity and cash flows in future periods. This table excludes amounts already recorded on our balance sheet as current liabilities at December 26, 2015. Amounts excluded include our liability for unrecognized tax benefits that totaled approximately \$10.4 million at December 26, 2015. We are currently unable to provide a reasonably reliable estimate of the amount or period(s) the cash settlement of this liability may occur.

<i>(in thousands)</i>	2016	2017	2018	2019	2020	Thereafter	Total
Non-cancelable operating leases	\$ 3,639	\$ 2,628	\$ 2,389	\$ 2,404	\$ 2,453	\$ 11,901	\$ 25,414

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

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

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

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

Investment and Interest Rate Risk.

At December 26, 2015, our investment portfolio included short-term, fixed-income investment securities with a fair value of approximately \$1.7 million. These securities are subject to interest rate risk and will likely decline in value if interest rates increase. Our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. As we classify our short-term securities as available-for-sale, no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary. Due to the relatively short duration of our investment portfolio, an immediate ten percent change in interest rates would have no material impact on our financial condition or results of operations.

We evaluate our investments periodically for possible other-than-temporary impairment by reviewing factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and our ability and intent to hold the investment for a period of time sufficient for anticipated recovery of market value. As of December 26, 2015, we had no investments with loss positions.

Foreign Currency Exchange Risk.

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

Fluctuations in currency exchange rates also impact the U.S. dollar amount of our net investment in foreign operations. The assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at the exchange rates in effect at the fiscal year-end balance sheet date. Income and expenses accounts are translated at an average exchange rate during the year which approximates the rates in effect at the transaction dates. The resulting translation adjustments are recorded in stockholders' equity as a component of accumulated other comprehensive income. The U.S. dollar strengthened relative to many foreign currencies as of December 26, 2015 compared to December 27, 2014 and consequently, our stockholders' equity decreased by \$11.0 million as a result of the foreign currency translation.

Based upon the current levels of net foreign assets, a hypothetical 10% devaluation of the U.S. dollar as compared to these currencies as of December 26, 2015 would result in an approximate \$16.9 million positive translation adjustment recorded in other comprehensive income within stockholders' equity. Conversely, a hypothetical 10% appreciation of the U.S. dollar as compared to these currencies as of December 26, 2015 would result in an approximate \$16.9 million negative translation adjustment recorded in other comprehensive income within stockholders' equity.

Item 8. Financial Statements and Supplementary Data.

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

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

None.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures - Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of December 26, 2015, the end of the period covered by this annual report.

Management's Annual Report on Internal Control Over Financial Reporting - Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on our evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 26, 2015.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has also audited the effectiveness of our internal control over financial reporting as of December 26, 2015, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Cohu, Inc.

We have audited Cohu, Inc.'s internal control over financial reporting as of December 26, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Cohu, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Cohu, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 26, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Cohu, Inc. as of December 26, 2015 and December 27, 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 26, 2015 of Cohu, Inc. and our report dated February 23, 2016 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Diego, California
February 23, 2016

Changes in Internal Control Over Financial Reporting – There have been no changes in our internal control over financial reporting that occurred during the fourth quarter of 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information under the heading “Executive Officers of the Registrant” in Part I, Item 1 of this Form 10-K is incorporated by reference in this section. The other information required by this item is hereby incorporated by reference to the Company’s definitive proxy statement, which will be filed with the Securities and Exchange Commission (“SEC”) within 120 days after the close of fiscal 2015.

Code of Business Conduct and Code of Ethics

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

Corporate Governance Guidelines and Certain Committee Charters

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

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

Item 11. Executive Compensation.

Information regarding Executive Compensation is hereby incorporated by reference to the Company’s definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2015.

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

Information regarding Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters is hereby incorporated by reference to the Company’s definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2015.

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

Information regarding Certain Relationships and Related Transactions, and Director Independence is hereby incorporated by reference to the Company’s definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2015.

Item 14. Principal Accounting Fees and Services.

Information regarding the Principal Accounting Fees and Services is hereby incorporated by reference to the Company’s definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2015.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

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

(1) Financial Statements

The following Consolidated Financial Statements of Cohu, Inc., including the report thereon of Ernst & Young LLP, are included in this Annual Report on Form 10-K beginning on page 30:

<u>Description</u>	<u>Form 10-K</u> <u>Page Number</u>
Consolidated Balance Sheets at December 26, 2015 and December 27, 2014	30
Consolidated Statements of Operations for each of the three years in the period ended December 26, 2015	31
Consolidated Statements of Comprehensive Loss for each of the three years in the period ended December 26, 2015	32
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 26, 2015	33
Consolidated Statements of Cash Flows for each of the three years in the period ended December 26, 2015	34
Notes to Consolidated Financial Statements	35
Report of Independent Registered Public Accounting Firm	55

(2) Financial Statement Schedule

Schedule II – Valuation and Qualifying Accounts	59
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All other financial statement schedules have been omitted because the required information is not applicable or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

(3) Exhibits

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

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

	December 26, 2015	December 27, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 115,370	\$ 70,885
Short-term investments	1,652	1,155
Accounts receivable, net	59,832	70,490
Inventories:		
Raw materials and purchased parts	24,423	26,239
Work in process	20,124	19,044
Finished goods	6,801	3,917
	<u>51,348</u>	<u>49,200</u>
Other current assets	6,261	8,363
Current assets of discontinued operations (Note 2)	-	10,318
Total current assets	234,463	210,411
Property plant and equipment, net	19,000	31,854
Goodwill	60,264	63,132
Intangible assets, net	25,297	33,087
Other assets	6,322	6,281
	<u>\$ 345,346</u>	<u>\$ 344,765</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 27,290	\$ 25,119
Accrued compensation and benefits	15,628	18,687
Accrued warranty	3,785	4,846
Deferred profit	3,730	6,941
Income taxes payable	4,195	3,133
Other accrued liabilities	8,563	6,708
Current liabilities of discontinued operations (Note 2)	-	2,783
Total current liabilities	63,191	68,217
Accrued retirement benefits	15,397	13,180
Noncurrent deferred gain on sale of facility (Note 3)	13,142	-
Deferred income taxes	6,954	7,269
Noncurrent income tax liabilities	6,761	7,321
Other accrued liabilities	1,764	1,004
Noncurrent liabilities of discontinued operations (Note 2)	-	706
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$1 par value; 1,000 shares authorized, none issued	-	-
Common stock, \$1 par value; 60,000 shares authorized, 26,240 shares issued and outstanding in 2015 and 25,692 shares in 2014	26,240	25,692
Paid-in capital	105,516	97,938
Retained earnings	128,153	134,152
Accumulated other comprehensive loss	(21,772)	(10,714)
Total stockholders' equity	<u>238,137</u>	<u>247,068</u>
	<u>\$ 345,346</u>	<u>\$ 344,765</u>

The accompanying notes are an integral part of these statements.

COHU, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Years ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Net sales	\$ 269,654	\$ 316,629	\$ 214,511
Cost and expenses:			
Cost of sales	180,616	210,657	157,111
Research and development	33,107	36,018	40,450
Selling, general and administrative	51,170	50,551	47,925
Gain on sale of facility (Note 3)	(3,198)	-	-
	<u>261,695</u>	<u>297,226</u>	<u>245,486</u>
Income (loss) from operations	7,959	19,403	(30,975)
Interest income	44	30	54
Income (loss) from continuing operations before taxes	8,003	19,433	(30,921)
Income tax provision (benefit)	2,211	4,653	(2,373)
Income (loss) from continuing operations	5,792	14,780	(28,548)
Loss from discontinued operations, net of tax (Note 2)	(5,542)	(6,072)	(4,870)
Net income (loss)	<u>\$ 250</u>	<u>\$ 8,708</u>	<u>\$ (33,418)</u>
Income (loss) per share:			
Basic:			
Income (loss) from continuing operations	\$ 0.22	\$ 0.58	\$ (1.15)
Loss from discontinued operations	(0.21)	(0.24)	(0.19)
Net income (loss)	<u>\$ 0.01</u>	<u>\$ 0.34</u>	<u>\$ (1.34)</u>
Diluted:			
Income (loss) from continuing operations	\$ 0.22	\$ 0.57	\$ (1.15)
Loss from discontinued operations	(0.21)	(0.24)	(0.19)
Net income (loss)	<u>\$ 0.01</u>	<u>\$ 0.33</u>	<u>\$ (1.34)</u>
Weighted average shares used in computing income (loss) per share:			
Basic	<u>26,057</u>	<u>25,393</u>	<u>24,859</u>
Diluted	<u>26,788</u>	<u>26,006</u>	<u>24,859</u>

The accompanying notes are an integral part of these statements.

COHU, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Years ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Net income (loss)	\$ 250	\$ 8,708	\$ (33,418)
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(11,000)	(14,107)	3,270
Adjustments related to postretirement benefits	(58)	(3,258)	1,604
Change in unrealized gain/loss on investments	-	-	(6)
Other comprehensive income (loss), net of tax	(11,058)	(17,365)	4,868
Comprehensive loss	<u>\$ (10,808)</u>	<u>\$ (8,657)</u>	<u>\$ (28,550)</u>

The accompanying notes are an integral part of these statements.

COHU, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

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

	Common stock \$1 par value	Paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at December 29, 2012	\$ 24,632	\$ 83,547	\$ 170,937	\$ 1,783	\$ 280,899
Net loss	-	-	(33,418)	-	(33,418)
Changes in cumulative translation adjustment	-	-	-	3,270	3,270
Adjustments related to postretirement benefits, net of tax	-	-	-	1,604	1,604
Changes in unrealized gains and losses on investments, net of tax	-	-	-	(6)	(6)
Cash dividends - \$0.24 per share	-	-	(5,973)	-	(5,973)
Exercise of stock options	117	769	-	-	886
Shares issued under employee stock purchase plan	163	1,088	-	-	1,251
Shares issued for restricted stock units vested	249	(249)	-	-	-
Repurchase and retirement of stock	(81)	(740)	-	-	(821)
Share-based compensation expense	-	5,468	-	-	5,468
Balance at December 28, 2013	25,080	89,883	131,546	6,651	253,160
Net income	-	-	8,708	-	8,708
Changes in cumulative translation adjustment	-	-	-	(14,107)	(14,107)
Adjustments related to postretirement benefits, net of tax	-	-	-	(3,258)	(3,258)
Cash dividends - \$0.24 per share	-	-	(6,102)	-	(6,102)
Exercise of stock options	237	1,764	-	-	2,001
Shares issued under employee stock purchase plan	139	1,001	-	-	1,140
Shares issued for restricted stock units vested	353	(353)	-	-	-
Repurchase and retirement of stock	(117)	(1,133)	-	-	(1,250)
Share-based compensation expense	-	6,776	-	-	6,776
Balance at December 27, 2014	25,692	97,938	134,152	(10,714)	247,068
Net income	-	-	250	-	250
Changes in cumulative translation adjustment	-	-	-	(11,000)	(11,000)
Adjustments related to postretirement benefits, net of tax	-	-	-	(58)	(58)
Cash dividends - \$0.24 per share	-	-	(6,249)	-	(6,249)
Exercise of stock options	175	1,335	-	-	1,510
Shares issued under employee stock purchase plan	123	977	-	-	1,100
Shares issued for restricted stock units vested	377	(377)	-	-	-
Repurchase and retirement of stock	(127)	(1,250)	-	-	(1,377)
Share-based compensation expense	-	6,893	-	-	6,893
Balance at December 26, 2015	\$ 26,240	\$ 105,516	\$ 128,153	\$ (21,772)	\$ 238,137

The accompanying notes are an integral part of these statements.

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

	Years ended		
	December 26, 2015	December 27, 2014	December 28, 2013
Cash flows from operating activities:			
Net income (loss)	\$ 250	\$ 8,708	\$ (33,418)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Loss on disposal of microwave equipment segment	3,573	-	-
Gain on sale of facility	(3,198)	-	-
Gain on disposal of video camera segment	-	(4,434)	-
Operating cash flows of discontinued operations	(1,039)	9,466	1,894
Depreciation and amortization	11,273	12,607	12,517
Share-based compensation expense	6,755	6,388	5,111
Accrued retiree benefits	2,185	787	662
Deferred income taxes	222	832	(1,656)
Other assets	(326)	-	-
Loss on disposal and impairment of fixed assets	311	-	-
Other accrued liabilities	127	-	-
Changes in current assets and liabilities, excluding effects from acquisitions and divestitures:			
Accounts receivable	8,970	(18,656)	(1,585)
Inventories	(5,743)	(3,401)	11,656
Accrued compensation, warranty and other liabilities	(3,740)	6,218	(1,534)
Accounts payable	3,376	139	7,040
Deferred profit	(3,108)	2,181	3,448
Other current assets	2,420	(1,294)	(353)
Income taxes payable, including excess stock option exercise benefits	(828)	137	(365)
Net cash provided by operating activities	<u>21,480</u>	<u>19,678</u>	<u>3,417</u>
Cash flows from investing activities, excluding effects from acquisitions and divestitures:			
Net cash received from sale of facility	33,314	-	-
Purchases of property, plant and equipment	(6,586)	(1,457)	(3,607)
Net cash received from disposition of microwave equipment segment	4,881	-	-
Purchases of short-term investments	(656)	(1,000)	-
Sales and maturities of short-term investments	155	1,045	6,221
Net cash received from sale of video camera segment	-	10,258	-
Payment for purchase of Ismecca, net of cash received	-	-	(53,463)
Other assets	-	-	(176)
Investing cash flows of discontinued operations	(74)	(209)	(301)
Net cash provided by (used in) investing activities	<u>31,034</u>	<u>8,637</u>	<u>(51,326)</u>
Cash flows from financing activities:			
Cash dividends paid	(6,215)	(6,067)	(4,468)
Issuance of stock, net	1,233	1,891	1,316
Net cash used in financing activities	<u>(4,982)</u>	<u>(4,176)</u>	<u>(3,152)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(3,047)</u>	<u>(4,922)</u>	<u>(79)</u>
Net increase (decrease) in cash and cash equivalents	44,485	19,217	(51,140)
Cash and cash equivalents at beginning of year	70,885	51,668	102,808
Cash and cash equivalents at end of year	<u>\$ 115,370</u>	<u>\$ 70,885</u>	<u>\$ 51,668</u>
Supplemental disclosure of cash flow information:			
Cash paid (refunded) during the year for income taxes	\$ (253)	\$ 971	\$ (900)
Inventory capitalized as capital assets	\$ 315	\$ 1,166	\$ 640
Dividends declared but not yet paid	\$ 1,573	\$ 1,539	\$ 1,504
Capitalized facility under build-to-suit lease	\$ 682	\$ -	\$ -

The accompanying notes are an integral part of these statements.

1. Summary of Significant Accounting Policies

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

Our fiscal years are based on a 52- or 53-week period ending on the last Saturday in December. Our fiscal years ended on December 26, 2015, December 27, 2014 and December 28, 2013 each consisted of 52 weeks.

Certain prior-period amounts in our consolidated financial statements have been reclassified to conform to the current period presentation.

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

Income (Loss) Per Share – Basic income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the reporting period. Diluted income per share includes the dilutive effect of common shares potentially issuable upon the exercise of stock options, vesting of outstanding restricted stock units and issuance of stock under our employee stock purchase plan using the treasury stock method. In loss periods, potentially dilutive securities are excluded from the per share computations due to their anti-dilutive effect. For purposes of computing diluted income per share, stock options with exercise prices that exceed the average fair market value of our common stock for the period are excluded. For the years ended December 26, 2015 and December 27, 2014 approximately 875,000 and 1,771,000 shares of our common stock were excluded from the computation, respectively.

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

<i>(in thousands)</i>	2015	2014	2013
Weighted average common shares outstanding	26,057	25,393	24,859
Effect of dilutive stock options and restricted stock units	731	613	-
	<u>26,788</u>	<u>26,006</u>	<u>24,859</u>

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

Cash, Cash Equivalents and Short-term Investments – Highly liquid investments with insignificant interest rate risk and original maturities of three months or less are classified as cash and cash equivalents. Investments with maturities greater than three months are classified as short-term investments. All of our short-term investments are classified as available-for-sale and are reported at fair value, with any unrealized gains and losses, net of tax, recorded in the statement of comprehensive income (loss). We manage our cash equivalents and short-term investments as a single portfolio of highly marketable securities. We have the ability and intent, if necessary, to liquidate any of our investments in order to meet the liquidity needs of our current operations during the next 12 months. Accordingly, investments with contractual maturities greater than one year from December 26, 2015 have been classified as current assets in the accompanying consolidated balance sheets.

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

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

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

Inventories – Inventories are stated at the lower of cost, determined on a current average or first-in, first-out basis, or market. Cost includes labor, material and overhead costs. Determining market value of inventories involves numerous estimates and judgments including projecting average selling prices and sales volumes for future periods and costs to complete and dispose of inventory. As a result of these analyses, we record a charge to cost of sales in advance of the period when the inventory is sold when estimated market values are below our costs. Charges to cost of sales for excess and obsolete inventories aggregated \$2.4 million, \$2.6 million, and \$7.1 million in 2015, 2014 and 2013, respectively.

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

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

	December 26, 2015	December 27, 2014
Property, plant and equipment, at cost:		
Land and land improvements	\$ 4,607	\$ 11,762
Buildings and building improvements	8,971	31,065
Machinery and equipment	31,888	32,356
	45,466	75,183
Less accumulated depreciation and amortization	(26,466)	(43,329)
Property plant and equipment, net	\$ 19,000	\$ 31,854

Depreciation expense was approximately \$4.2 million in 2015, \$4.8 million in 2014 and \$4.7 million 2013.

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

Goodwill, Purchased Intangible Assets and Other Long-lived Assets – We evaluate goodwill for impairment annually on October 1st of each year and when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. As a part of our annual assessment process for 2015 we performed a qualitative assessment to determine whether current events or changes in circumstances lead us to a determination that it is more likely than not (defined as a likelihood of more than 50 percent) that the fair value of our reporting unit is less than its carrying amount. Under this approach, absent a qualitative determination that the fair value of our reporting unit is more likely than not to be less than its carrying value, we do not need to proceed to the traditional estimated fair value test for that asset which would involve comparing the book value of net assets to the fair value of our identified reporting unit.

As of October 1, 2015, the results of our qualitative assessment indicated there was no impairment.

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

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

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

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

Revenue Recognition – Our net sales are derived from the sale of products and services and are adjusted for estimated returns and allowances, which historically have been insignificant. We recognize revenue when there is persuasive evidence of an arrangement, title and risk of loss have passed, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to our customers upon shipment. In circumstances where either title or risk of loss pass upon destination or acceptance, we defer revenue recognition until such events occur.

Revenue for established products that have previously satisfied a customer's acceptance requirements and provide for full payment tied to shipment is generally recognized upon shipment and passage of title. In certain instances, customer payment terms may provide that a minority portion (e.g. up to 20%) of the equipment purchase price be paid only upon customer acceptance. In those situations, the majority portion (e.g. 80%) of revenue where the contingent payment is tied to shipment and the entire product cost of sale are recognized upon shipment and passage of title and the minority portion of the purchase price related to customer acceptance is deferred and recognized upon receipt of customer acceptance. In cases where a prior history of customer acceptance cannot be demonstrated or from sales where customer payment dates are not determinable and in the case of new products, revenue is deferred until customer acceptance has been received. Our post-shipment obligations typically include installation and standard warranties. The estimated fair value of installation related revenue is recognized in the period the installation is performed. Service revenue is recognized ratably over the period of the related contract or upon completion of the services if they are short-term in nature. Spares and kit revenue is generally recognized upon shipment.

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

On shipments where sales are not recognized, gross profit is generally recorded as deferred profit in our consolidated balance sheet representing the difference between the receivable recorded and the inventory shipped. In certain instances where customer payments are received prior to product shipment, the customer's payments are recorded as customer advances. At December 26, 2015, we had total deferred revenue of approximately \$5.0 million and deferred profit of \$3.7 million. At December 27, 2014, we had total deferred revenue of approximately \$10.7 million and deferred profit of \$6.9 million.

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

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

Foreign 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. Certain of our foreign subsidiaries have designated the local currency as their functional currency and, as a result, their assets and liabilities are translated at the rate of exchange at the balance sheet date, while revenue and expenses are translated using the average exchange rate for the period. During the years ended December 26, 2015 and December 27, 2014 we recognized approximately \$1.4 million and \$2.0 million of foreign exchange gains in our consolidated statement of operations, respectively. Cumulative translation adjustments resulting from the translation of the financial statements are included as a separate component of stockholders' equity.

Comprehensive Loss – Our accumulated other comprehensive loss totaled approximately \$21.8 million at December 26, 2015 and \$10.7 million at December 27, 2014 and was attributed to, net of income taxes where applicable; foreign currency adjustments resulting from the translation of certain accounts into U.S. Dollars, unrealized losses and gains on investments and adjustments to accumulated postretirement benefit obligations. The U.S. Dollar strengthened relative to many foreign currencies as of December 26, 2015 compared to December 27, 2014. Consequently, our accumulated comprehensive loss increased by \$11.0 million as a result of the foreign currency translation. Similarly, in the previous year, strengthening of the U.S. Dollar as of December 27, 2014 compared to December 28, 2013 led to an increase in our accumulated comprehensive loss of \$14.1 million. Additional information related to accumulated other comprehensive income, on an after-tax basis is included in Note 11.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements – In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASU) 2015-04, “Compensation - Retirement Benefits (Subtopic 715): Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets.” This update provides a practical expedient that permits a company to measure defined benefit plan assets and obligations using the month-end date that is closest to the company’s fiscal year-end and apply that practical expedient consistently from year to year. The practical expedient should be applied consistently to all plans if the company has more than one plan. During the fourth quarter of fiscal 2015, we elected to early adopt this guidance and the adoption had no impact on our results of operations.

In November 2015, the FASB issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes”, which provides guidance on the presentation of deferred income taxes that requires deferred tax assets and liabilities, along with related valuation allowances, to be classified as noncurrent on the balance sheet. As a result, each tax jurisdiction will now only have one net noncurrent deferred tax asset or liability. The new guidance does not change the existing requirement that prohibits offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. During the fourth quarter of fiscal 2015, we elected to early-adopt this guidance retrospectively. Adoption had no impact on our results of operations. The following table summarizes the adjustments made to conform prior year classifications with the new guidance (*in thousands*):

	December 27, 2014		
	As Filed	Reclass	As Adjusted
Current deferred income tax assets	\$ 4,406	\$ (4,406)	\$ -
Noncurrent deferred income tax assets	-	353	353
Current deferred income tax liabilities (included in other accrued liabilities)	(261)	261	-
Noncurrent deferred income tax liabilities	(11,061)	3,792	(7,269)
Net deferred income tax assets (liabilities)	<u>\$ (6,916)</u>	<u>\$ -</u>	<u>\$ (6,916)</u>

Recently Issued Accounting Pronouncements – In May 2014, the FASB issued new guidance on revenue from contracts with customers. The amended guidance outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” Entities have the option of using either a full retrospective or modified approach to adopt the guidance. This guidance is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. In April 2015, the FASB agreed to propose a one-year deferral of the revenue recognition standard’s effective date for all entities, which would change the effectiveness to annual reporting periods beginning after December 15, 2017, with the option to adopt as early as December 15, 2016. We are currently evaluating the impact of the new guidance on our financial statements and have not yet determined which transition method we will utilize upon adoption or the potential impact of this new guidance on our consolidated financial statements.

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

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

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

2. Discontinued Operations

In 2015, we sold all of the outstanding stock of BMS for \$4.9 million in cash and up to \$2.5 million of contingent cash consideration. In 2014, we sold substantially all the assets of our video camera business, Cohu Electronics for \$10.3 million comprised of \$9.5 million in cash, \$0.5 million in contingent consideration and a working capital adjustment. Our decision to sell these two non-core businesses resulted from management’s determination that they were no longer a strategic fit within our organization.

As part of the divestiture of BMS we recorded a long-term contingent consideration receivable that has been classified as Level 3 in the fair value hierarchy. See Note 5, “Financial Instruments Measured at Fair Value” for additional information on the three-tier fair value hierarchy. The contingent consideration represents the estimated fair value of future payments we are due based on BMS achieving annual revenue targets in certain years as specified in the sale agreement. We determine the value of the contingent consideration using a Monte Carlo simulation model with changes to the fair value of the contingent consideration being recognized in discontinued operations. At December 26, 2015, the current fair value of the receivable totaled \$0.5 million.

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

	December 26, 2015	December 27, 2014
Assets:		
Accounts receivable, net	\$ -	\$ 3,156
Inventories	-	6,345
Other current assets	-	817
Total current assets	<u>\$ -</u>	<u>\$ 10,318</u>
Liabilities:		
Deferred Profit	\$ -	\$ 504
Other accrued current liabilities	-	2,279
Total current liabilities	-	2,783
Noncurrent liabilities	-	706
Total liabilities	<u>\$ -</u>	<u>\$ 3,489</u>

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

	December 26, 2015	December 27, 2014	December 28, 2013
Net sales:			
Microwave equipment segment	\$ 6,965	\$ 16,694	\$ 17,063
Video camera segment	-	5,460	15,726
	<u>\$ 6,965</u>	<u>\$ 22,154</u>	<u>\$ 32,789</u>
Operating loss before income taxes:			
Microwave equipment segment	\$ (1,963)	\$ (10,305)	\$ (6,142)
Video camera segment	-	(242)	1,317
	<u>(1,963)</u>	<u>(10,547)</u>	<u>(4,825)</u>
Loss from sale of BMS	(3,573)	-	-
Gain from sale of Cohu Electronics	-	4,434	-
Loss before taxes	<u>(5,536)</u>	<u>(6,113)</u>	<u>(4,825)</u>
Income tax provision	6	(41)	45
Loss, net of tax	<u>\$ (5,542)</u>	<u>\$ (6,072)</u>	<u>\$ (4,870)</u>

In the fourth quarter of fiscal 2015 we finalized a working capital adjustment associated with the sale of BMS. We also adjusted the fair value contingent consideration to be earned pursuant to the definitive agreement based on our current estimates. These adjustments have been included in the loss from sale of BMS presented above.

3. Sale-leaseback of Poway Facility

On December 4, 2015, we completed the sale of our headquarters facility located in Poway, California (the "Poway Facility") for \$34.1 million. After payment of commissions and other fees associated with the sale we realized net cash proceeds of approximately \$33.3 million which resulted in a total gain of \$18.5 million. Concurrent with the closing of the sale, we entered into two leases. One lease, with a ten-year term through 2025, provides for base rent of approximately \$1.6 million per annum, with 3% annual adjustments for inflation and a pro rata share of property operating costs. The lease, covers approximately 43% of the Poway Facility that Cohu and our wholly owned subsidiary, Delta Design, Inc. will consolidate into. This lease also contains two five-year renewal options. The other lease is for a term of one year, provides for base rent of approximately \$0.6 million and a pro rata share of property operating costs, and covers the balance of the Poway Facility. The transaction allows us to reduce the utilized space within the Poway Facility to better fit our current and anticipated future needs, as we transition manufacturing activities to Asia.

We accounted for this transaction in accordance with ASC subtopic 840-40, *Sale-leaseback transactions*, and recognized a gain on the sale-leaseback totaling \$3.2 million. The remaining \$15.3 million portion of the gain not recognized at the time of sale has been deferred and will be recognized on a straight-line basis over the 10-year term lease in line with the recognition of rental expense related to the lease.

4. Goodwill and Purchased Intangible Assets

Changes in the carrying value of goodwill by during the years ended December 26, 2015 and December 27, 2014 were as follows (*in thousands*):

	Total Goodwill
Balance, December 28, 2013	\$ 67,983
Impact of currency exchange	(4,851)
Balance, December 27, 2014	<u>63,132</u>
Impact of currency exchange	(2,868)
Balance, December 26, 2015	<u>\$ 60,264</u>

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

	December 26, 2015			December 27, 2014	
	Gross Carrying Amount	Accumulated Amortization	Remaining Useful Life (years)	Gross Carrying Amount	Accumulated Amortization
Rasco technology	\$ 26,904	\$ 23,776	0.9	\$ 29,845	\$ 22,616
Ismeca technology	27,043	10,329	5.0	27,014	6,879
Trade names	5,547	92	14.7	5,723	-
	<u>\$ 59,494</u>	<u>\$ 34,197</u>		<u>\$ 62,582</u>	<u>\$ 29,495</u>

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

We review the assessment of indefinite life for our trade names each period to determine whether the indefinite life assumption continues to be supportable. If it is deemed unsupported the change in useful life from indefinite to finite is made and amortization is recognized on a prospective basis after testing the assets for impairment. On September 24, 2015, we introduced a rebranding initiative and unveiled a new “Cohu” logo. The primary goal of the change was to improve the cohesiveness of our organization and come to the market as one brand. Previously, it had been our determination that the Rasco and Ismeca trade names had an indefinite life. As a result of the rebranding initiative, we determined that the classification of the useful life of our trade names as indefinite was no longer appropriate based on our expectations of the future period over which the assets will provide economic benefit to Cohu. After performing a test for impairment, we determined that the assets should be amortized over fifteen years.

Amortization expense related to purchased intangible assets was approximately \$7.0 million in 2015 and \$7.8 million in both 2014 and 2013. As of December 26, 2015, we expect amortization expense in future periods to be as follows: 2016 - \$6.8 million; 2017 - \$3.7 million; 2018 - \$3.7 million; 2019 - \$3.7 million 2020 - \$3.7 million; and thereafter \$3.7 million.

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 are classified as available-for-sale and recorded at fair value. Investment securities are exposed to market risk due to changes in interest rates and credit risk and we monitor credit risk and attempt to mitigate exposure by making high-quality investments and through investment diversification.

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

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

	At December 26, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Foreign government security	\$ 650	\$ -	\$ -	\$ 650
Bank certificates of deposit	1,002	-	-	1,002
	<u>\$ 1,652</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,652</u>

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

Effective maturities of short-term investments at December 26, 2015, were as follows:

(in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 1,450	\$ 1,450
Due after one year through three years	202	202
	<u>\$ 1,652</u>	<u>\$ 1,652</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.

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

	Fair value measurements at December 26, 2015 using:			
	Level 1	Level 2	Level 3	Total estimated fair value
Cash	\$ 73,746	\$ -	\$ -	\$ 73,746
Foreign government security	-	650	-	650
Money market funds	-	41,624	-	41,624
Bank certificates of deposit	-	1,002	-	1,002
	<u>\$ 73,746</u>	<u>\$ 43,276</u>	<u>\$ -</u>	<u>\$ 117,022</u>

	Fair value measurements at December 27, 2014 using:			
	Level 1	Level 2	Level 3	Total estimated fair value
Cash	\$ 66,467	\$ -	\$ -	\$ 66,467
Municipal securities	-	155	-	155
Money market funds	-	4,418	-	4,418
Bank certificates of deposit	-	1,000	-	1,000
	<u>\$ 66,467</u>	<u>\$ 5,573</u>	<u>\$ -</u>	<u>\$ 72,040</u>

6. Employee Benefit Plans

Defined Contribution Retirement Plans – We maintain a defined contribution 401(k) retirement savings plan covering all salaried and hourly U.S. employees. Participation is voluntary and participants' contributions are based on their eligible compensation. We match contributions of participants, up to various statutory limits. In 2013 we provided a matching contribution at 1.5% and made contributions to the plan of approximately \$0.3 million. In 2014 we increased our matching contribution to 3% and made contributions to the plan of approximately \$0.7 million in both 2015 and 2014.

Defined Benefit Retirement Plans – We maintain defined benefit plans for employees located outside the U.S. for which the majority of the obligations and net periodic benefit cost were determined to be immaterial for all period presented. As a result of the acquisition of Ismeca effective December 31, 2012, we took over the Ismeca Europe Semiconductor BVG Pension Plan in Switzerland (“the Swiss Plan”) and the following discussion only relates to the Swiss Plan.

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

<i>(in thousands)</i>	2015	2014	2013
Service cost	\$ 856	\$ 749	\$ 841
Interest cost	311	491	398
Expected return on assets	(193)	(343)	(267)
Settlements	235	-	-
Net periodic costs	<u>\$ 1,209</u>	<u>\$ 897</u>	<u>\$ 972</u>

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

<i>(in thousands)</i>	2015	2014
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ (26,027)	\$ (23,850)
Service cost	(856)	(749)
Interest cost	(311)	(491)
Actuarial gain (loss)	(660)	(3,649)
Participant contributions	(672)	(728)
Benefits paid	296	998
Plan change	558	-
Settlements	2,199	-
Foreign currency exchange adjustment	(10)	2,442
Benefit obligation at end of year	<u>(25,483)</u>	<u>(26,027)</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	15,603	16,083
Return on assets, net of actuarial loss	277	652
Employer contributions	672	728
Participant contributions	672	728
Benefits paid	(296)	(998)
Settlements	(2,199)	-
Foreign currency exchange adjustment	(13)	(1,590)
Fair value of plan assets at end of year	<u>14,716</u>	<u>15,603</u>
Net liability at end of year	<u>\$ (10,767)</u>	<u>\$ (10,424)</u>

At December 26, 2015 and December 27, 2014, the Swiss Plan’s net liability is included in noncurrent accrued retirement benefits. Amounts recognized in accumulated other comprehensive income net of tax related to the Swiss Plan consisted of an unrecognized net actuarial loss totaling \$1.8 million at December 26, 2015 and \$2.0 million at December 27, 2014.

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

	2015	2014
Discount rate	1.0%	1.3%
Compensation increase	1.8%	1.8%

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

	2015	2014	2013
Discount rate	1.3%	2.3%	1.8%
Rate of return on Assets	1.3%	2.3%	1.8%
Compensation increase	1.8%	2.0%	2.0%

During 2016 employer and employee contributions to the Swiss Plan are expected to total \$0.7 million. Estimated benefit payments are expected to be as follows: 2016 - \$0.6 million; 2017 - \$0.6 million; 2018 - \$0.7 million; 2019 - \$0.8 million; 2020 - \$0.9 million; and \$5.2 million thereafter through 2025.

As is customary with Swiss pension plans, the assets of the plan are invested in a collective fund with multiple employers. We have no investment authority over the assets of the plan that are held and invested by a Swiss insurance company. Investment holdings are made with respect to Swiss laws and target allocations for plan assets are 75% debt securities, 12% real estate investments, 8% alternative investments, 2% cash and 3% equity securities. The valuation of the collective fund assets as a whole is a Level 3 measurement; however the individual investments of the fund are generally Level 1 (equity securities), Level 2 (fixed income) and Level 3 (real estate and alternative) investments. We determine the fair value of the plan assets based on information provided by the collective fund, through review of the collective fund's annual financial statements. See Note 5, "Financial Instruments Measured at Fair Value" for additional information on the three-tier fair value hierarchy.

Retiree Medical Benefits – We provide post-retirement health benefits to certain executives and directors under a noncontributory plan. The net periodic benefit cost was \$0.1 million in both 2015 and 2013 compared to a net periodic benefit income of \$0.1 million in 2014. We fund benefits as costs are incurred and as a result there are no plan assets.

The weighted average discount rate used in determining the accumulated post-retirement benefit obligation was 4.2% in 2015, 3.8% in 2014 and 4.6% in 2013. Annual rates of increase of the cost of health benefits were assumed to be 7.5% in 2016. These rates were then assumed to decrease 0.3% per year to 4.5% in 2025 and remain level thereafter. A one percent increase (decrease) in health care cost trend rates would increase (decrease) the 2015 net periodic benefit cost by approximately \$14,000 (\$11,000) and the accumulated post-retirement benefit obligation as of December 26, 2015, by approximately \$411,000 (\$338,000).

Contributions to the post-retirement health benefit plan are expected to total \$0.1 million in 2016. Estimated benefit payments are expected to be as follows: 2016 - \$0.1 million; 2017 - \$0.1 million; 2018 - \$0.1 million; 2019 - \$0.1 million; 2020 - \$0.1 million; and \$0.7 million thereafter through 2025.

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

<i>(in thousands)</i>	2015	2014
Accumulated benefit obligation at beginning of year	\$ 2,428	\$ 2,021
Service cost	-	13
Interest cost	90	91
Actuarial loss	187	370
Benefits paid	(56)	(67)
Accumulated benefit obligation at end of year	2,649	2,428
Plan assets at end of year	-	-
Funded status	\$ (2,649)	\$ (2,428)

Deferred Compensation – The Cohu, Inc. Deferred Compensation Plan allows certain of our officers to defer a portion of their current compensation. We have purchased life insurance policies on the participants with Cohu as the named beneficiary. Participant contributions, distributions and investment earnings and losses are accumulated in a separate account for each participant. At both December 26, 2015 and December 27, 2014, the payroll liability to participants, included in accrued compensation and benefits in the consolidated balance sheet, was approximately \$2.6 million and the cash surrender value of the related life insurance policies included in other current assets was approximately \$2.3 million.

Employee Stock Purchase Plan – On May 12, 2015 our stockholders approved an amendment to the Cohu, Inc. 1997 Employee Stock Purchase Plan (“the Plan”) which increased the number of shares that may be issued under the Plan by 750,000 shares. As a result of this amendment the Plan provides for the issuance of a maximum of 2,650,000 shares of our common stock. Under the Plan, eligible employees may purchase shares of common stock through payroll deductions. The price paid for the common stock is equal to 85% of the fair market value of our common stock on specified dates. During the last three years we issued shares under the Plan as follows: 2015 - 122,528; 2014 - 138,831 and 2013 - 163,120. At December 26, 2015, there were 811,063 shares reserved for issuance under the Plan.

Stock Options – On May 12, 2015, our stockholders approved an amendment to the Cohu, Inc. 2005 Equity Incentive Plan (“the 2005 Plan”) which increased the number of shares that may be issued under the 2005 Plan by 1,500,000 shares. At December 26, 2015, a total of 2,255,701 shares were available for future equity grants under the 2005 Plan. Under the 2005 Plan stock options may be granted to employees, consultants and outside directors to purchase a fixed number of shares of our common stock at prices not less than 100% of the fair market value at the date of grant. Options generally vest and become exercisable after one year or in four annual increments beginning one year after the grant date and expire ten years from the grant date. We have historically issued new shares of Cohu common stock upon share option exercise.

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

<i>(in thousands, except per share data)</i>	2015		2014		2013	
	Shares	Wt. Avg. Ex. Price	Shares	Wt. Avg. Ex. Price	Shares	Wt. Avg. Ex. Price
Outstanding, beginning of year	2,435	\$ 11.67	3,086	\$ 11.93	3,113	\$ 12.62
Granted	10	\$ 10.98	10	\$ 12.58	470	\$ 9.83
Exercised	(175)	\$ 8.65	(237)	\$ 8.43	(117)	\$ 7.55
Cancelled	(305)	\$ 16.07	(424)	\$ 15.37	(380)	\$ 16.37
Outstanding, end of year	<u>1,965</u>	\$ 11.25	<u>2,435</u>	\$ 11.67	<u>3,086</u>	\$ 11.93
Options exercisable at year end	1,673	\$ 11.47	1,901	\$ 12.08	2,195	\$ 12.46

The aggregate intrinsic value of options exercised was \$0.7 million in both 2015 and 2014, and \$0.4 million in 2013. At December 26, 2015, the aggregate intrinsic value of options outstanding, vested and expected to vest and exercisable was \$1.2 million.

Information about stock options outstanding at December 26, 2015 is as follows (*options in thousands*):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Approximate Wt. Avg. Remaining Life (Years)	Wt. Avg. Ex. Price	Number Exercisable	Wt. Avg. Ex. Price
\$7.32 - \$10.58	1,182	5.2	\$ 8.82	922	\$ 8.54
\$10.59 - \$15.50	498	4.2	\$ 14.06	466	\$ 14.26
\$15.51 - \$20.73	285	1.7	\$ 16.44	285	\$ 16.44
	<u>1,965</u>	4.4	\$ 11.25	<u>1,673</u>	\$ 11.47

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

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

<i>(in thousands, except per share data)</i>	2015		2014		2013	
	Units	Wt. Avg. Fair Value	Units	Wt. Avg. Fair Value	Units	Wt. Avg. Fair Value
Outstanding, beginning of year	1,026	\$ 9.54	887	\$ 9.46	615	\$ 10.54
Granted	482	\$ 10.54	497	\$ 10.07	531	\$ 8.80
Released	(339)	\$ 9.63	(315)	\$ 10.16	(223)	\$ 10.86
Cancelled	(91)	\$ 9.82	(43)	\$ 9.41	(36)	\$ 9.86
Outstanding, end of year	<u>1,078</u>	<u>\$ 9.93</u>	<u>1,026</u>	<u>\$ 9.54</u>	<u>887</u>	<u>\$ 9.46</u>

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

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

<i>(in thousands, except per share data)</i>	2015		2014		2013	
	Units	Wt. Avg. Fair Value	Units	Wt. Avg. Fair Value	Units	Wt. Avg. Fair Value
Outstanding, beginning of year	334	\$ 10.49	238	\$ 9.32	122	\$ 9.89
Granted	156	\$ 10.69	208	\$ 11.34	158	\$ 9.03
Released	(38)	\$ 9.52	(38)	\$ 9.52	(26)	\$ 9.89
Cancelled	(76)	\$ 9.86	(74)	\$ 9.59	(16)	\$ 9.89
Outstanding, end of year	<u>376</u>	<u>\$ 10.80</u>	<u>334</u>	<u>\$ 10.49</u>	<u>238</u>	<u>\$ 9.32</u>

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

Share-based compensation expense related to restricted stock unit awards is calculated based on the market price of our common stock on the date of grant, reduced by the present value of dividends expected to be paid on our common stock prior to vesting of the restricted stock unit. Estimated forfeitures are required to be included as a part of the grant date expense estimate. We used historical data to estimate expected employee behaviors related to option exercises and forfeitures.

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

<i>Employee Stock Purchase Plan</i>	2015	2014	2013
Dividend yield	2.2%	2.4%	2.6%
Expected volatility	35.3%	35.3%	38.4%
Risk-free interest rate	0.1%	0.1%	0.1%
Expected term (years)	0.5	0.5	0.5
Weighted-average grant date fair value per share	\$ 2.71	\$ 2.52	\$ 2.32

<i>Employee Stock Options</i>	2015	2014	2013
Dividend yield	2.1%	2.0%	2.6%
Expected volatility	39.1%	42.5%	44.9%
Risk-free interest rate	1.6%	1.9%	1.1%
Expected term (years)	5.9	5.9	6.4
Weighted-average grant date fair value per share	\$ 3.46	\$ 4.39	\$ 3.37

<i>Restricted Stock Units</i>	2015	2014	2013
Dividend yield	2.1%	2.2%	2.5%

<i>Performance Stock Units</i>	2015	2014	2013
Dividend yield	2.1%	2.2%	2.5%

Reported share-based compensation is classified in the consolidated financial statements as follows:

<i>(in thousands)</i>	2015	2014	2013
Cost of sales	\$ 566	\$ 491	\$ 390
Research and development	1,092	1,858	1,623
Selling, general and administrative	5,097	4,039	3,098
Share-based compensation of continuing operations	6,755	6,388	5,111
Discontinued operations	138	388	357
Income tax benefit	(249)	(204)	-
Total share-based compensation, net of tax	\$ 6,644	\$ 6,572	\$ 5,468

At December 26, 2015, excluding a reduction for forfeitures, we had approximately \$0.6 million of pre-tax unrecognized compensation cost related to unvested stock options which is expected to be recognized over a weighted-average period of approximately 1.2 years.

At December 26, 2015, excluding a reduction for forfeitures, we had approximately \$10.0 million of pre-tax unrecognized compensation cost related to unvested restricted stock units and performance stock units which is expected to be recognized over a weighted-average period of approximately 2.3 years.

7. Income Taxes

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

<i>(in thousands)</i>	2015	2014	2013
Current:			
U.S. Federal	\$ 5	\$ (307)	\$ (1,539)
U.S. State	28	40	42
Foreign	1,956	4,088	780
Total current	1,989	3,821	(717)
Deferred:			
U.S. Federal	89	112	763
U.S. State	49	(17)	24
Foreign	84	737	(2,443)
Total deferred	222	832	(1,656)
	<u>\$ 2,211</u>	<u>\$ 4,653</u>	<u>\$ (2,373)</u>

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

<i>(in thousands)</i>	2015	2014	2013
U.S.	\$ (5,214)	\$ 1,076	\$ (23,193)
Foreign	13,217	18,357	(7,728)
Total	<u>\$ 8,003</u>	<u>\$ 19,433</u>	<u>\$ (30,921)</u>

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

<i>(in thousands)</i>	2015	2014
Deferred tax assets:		
Inventory, receivable and warranty reserves	\$ 8,207	\$ 9,585
Net operating loss carryforwards	7,605	8,266
Tax credit carryforwards	12,291	11,905
Accrued employee benefits	4,993	5,232
Deferred profit and gain on facility sale	6,084	1,091
Stock-based compensation	4,443	4,352
Acquisition basis differences	1,544	2,133
Other	265	608
Gross deferred tax assets	45,432	43,172
Less valuation allowance	(42,289)	(37,023)
Total deferred tax assets	3,143	6,149
Deferred tax liabilities:		
Depreciation and fixed asset related	227	1,822
Acquisition basis differences	8,904	10,600
Other	563	643
Total deferred tax liabilities	9,694	13,065
Net deferred tax liabilities	<u>\$ (6,551)</u>	<u>\$ (6,916)</u>

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

In assessing whether a valuation allowance is required, significant weight is to be given to evidence that can be objectively verified. We have evaluated our DTAs each reporting period, including an assessment of our cumulative income or loss over the prior three-year period and future periods, to determine if a valuation allowance was required. A significant negative factor in our assessment was Cohu's three-year cumulative U.S. loss history at the end of various fiscal periods including 2015.

As a result of our cumulative, three-year U.S. GAAP pretax loss from continuing operations of approximately \$27.3 million at the end of 2015, and our U.S. loss in 2015, we were unable to conclude at December 26, 2015 that it was "more likely than not" that our U.S. DTAs would be realized. We will evaluate the realizability of our DTAs at the end of each quarterly reporting period in 2016 and should circumstances change it is possible the remaining valuation allowance, or a portion thereof, will be reversed in a future period.

Our valuation allowance on our DTAs at December 26, 2015 and December 27, 2014 was approximately \$42.3 million and \$37.0 million, respectively. The remaining gross DTAs for which a valuation allowance was not recorded are realizable through future reversals of existing taxable temporary differences.

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

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

<i>(in thousands)</i>	2015	2014	2013
Tax provision (credit) at U.S. 35% statutory rate	\$ 2,801	\$ 6,802	\$ (10,822)
State income taxes, net of federal tax benefit	(152)	119	(1,089)
Settlements, adjustments and releases from statute expirations	(104)	(65)	(849)
Federal tax credits	(221)	(244)	(1,340)
Stock-based compensation on which no tax benefit provided	156	160	168
Change in valuation allowance	2,181	437	9,574
Foreign income taxed at different rates	(2,601)	(2,151)	1,513
Other, net	151	(405)	472
	<u>\$ 2,211</u>	<u>\$ 4,653</u>	<u>\$ (2,373)</u>

State income taxes, net of federal benefit, have been reduced by research tax credits totaling approximately \$0.4 million, \$0.5 million and \$0.7 million in 2015, 2014 and 2013, respectively.

At December 26, 2015, we had federal, state and foreign net operating loss carryforwards of approximately \$19.3 million, \$21.3 million and \$1.6 million, respectively, that expire in various tax years beginning in 2018 through 2035 or have no expiration date. We also have federal and state tax credit carryforwards at December 26, 2015 of approximately \$6.7 million and \$13.6 million, respectively, certain of which expire in various tax years beginning in 2016 through 2035 or have no expiration date. The federal and state loss and credit carryforwards are subject to annual limitations under Sections 382 and 383 of the Internal Revenue Code and applicable state tax law.

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

U.S. income taxes have not been provided on approximately \$41 million of accumulated undistributed earnings of certain foreign subsidiaries, as we currently intend to indefinitely reinvest these earnings in operations outside the U.S. It is not practicable to estimate the amount of tax that might be payable if some or all of such earnings were to be remitted. We have certain tax holidays with respect to our operations in Malaysia and the Philippines. These holidays require compliance with certain conditions and expire at various dates through 2023. The impact of these holidays was an increase in net income of approximately \$0.8 million, or \$0.03 per share, in 2015 and not significant in fiscal 2014 and 2013.

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

<i>(in thousands)</i>	2015	2014	2013
Balance at beginning of year	\$ 10,841	\$ 10,483	\$ 6,080
Gross additions for tax positions of current year	215	761	933
Gross additions for tax positions of prior years	248	365	3,700
Reductions due to lapse of the statute of limitations	(243)	(587)	-
Foreign exchange rate impact	(617)	(181)	(230)
Balance at end of year	<u>\$ 10,444</u>	<u>\$ 10,841</u>	<u>\$ 10,483</u>

The 2013 gross additions for tax positions of prior years are primarily composed of additions from the Ismecca acquisition.

If the unrecognized tax benefits at December 26, 2015 are ultimately recognized, approximately \$5.6 million (\$6.2 million at December 27, 2014) would result in a reduction in our income tax expense and effective tax rate. It is reasonably possible that our gross unrecognized tax benefits as of December 26, 2015 could decrease in 2016 by approximately \$0.5 million as a result of the expiration of certain statutes of limitations.

We recognize interest and penalties related to unrecognized tax benefits in income tax expense. Cohu had approximately \$1.4 million accrued for the payment of interest and penalties at December 26, 2015 and December 27, 2014. Interest and penalty expense, net of accrued interest reversed, was approximately \$0.1 in 2015, not significant in 2014 and approximately \$(0.1) million in 2013.

Our U.S. federal and state income tax returns for years after 2011 and 2010, respectively, remain open to examination, subject to the statute of limitations. Net operating loss and credit carryforwards arising prior to these years are also open to examination if and when utilized. The statute of limitations for the assessment and collection of income taxes related to our foreign tax returns varies by country. In the foreign countries where we have significant operations these time periods generally range from four to ten years after the year for which the tax return is due or the tax is assessed.

8. Segment and Geographic Information

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

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

	2015	2014	2013
Intel	18.0%	15.7%	18.5%
NXP Semiconductors N.V. ⁽¹⁾	11.4%	11.4%	13.5%

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

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

<i>(in thousands)</i>	2015	2014	2013
Malaysia	\$ 60,776	\$ 73,818	\$ 51,491
China	52,589	51,662	39,202
United States	50,704	72,266	39,504
Philippines	16,270	28,669	26,489
Rest of the World	89,315	90,214	57,825
Total	<u>\$ 269,654</u>	<u>\$ 316,629</u>	<u>\$ 214,511</u>

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

<i>(in thousands)</i>	2015	2014
<i>Property, plant and equipment:</i>		
United States	\$ 3,054	\$ 18,986
Germany	6,882	7,484
Philippines	4,171	2,721
Malaysia	4,165	1,838
Rest of the World	728	825
Total, net	<u>\$ 19,000</u>	<u>\$ 31,854</u>
<i>Goodwill and other intangible assets:</i>		
Germany	\$ 31,337	\$ 38,527
Switzerland	22,444	25,921
United States	17,241	17,241
Malaysia	6,995	6,988
Singapore	6,558	6,558
Rest of the World	986	984
Total, net	<u>\$ 85,561</u>	<u>\$ 96,219</u>

9. Commitments and Contingencies

We lease certain of our facilities and equipment under non-cancelable operating leases. Rental expense was \$1.8 million in both 2015 and 2014 and \$1.7 million 2013. Future minimum lease payments at December 26, 2015 are as follows:

<i>(in thousands)</i>	2016	2017	2018	2019	2020	Thereafter	Total
Non-cancelable operating leases	\$ 3,639	\$ 2,628	\$ 2,389	\$ 2,404	\$ 2,453	\$ 11,901	\$ 25,414

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 the matters described above will have a material adverse effect on our assets, financial position or results of operations.

10. Guarantees

Accrued Warranty

Changes in accrued warranty during the three-year period ended December 26, 2015 was as follows:

<i>(in thousands)</i>	2015		2014		2013	
Beginning balance	\$	5,848	\$	4,673	\$	4,206
Warranty accruals		6,747		6,176		4,814
Warranty payments		(7,709)		(5,001)		(6,180)
Warranty liability assumed		-		-		1,833
Ending balance	\$	<u>4,886</u>	\$	<u>5,848</u>	\$	<u>4,673</u>

Accrued warranty amounts expected to be incurred after one year are included in noncurrent other accrued liabilities in the consolidated balance sheet. These amounts total \$1.1 million at December 26, 2015 and \$1.0 million at December 27, 2014. Prior period long-term accrued warranty amounts have been reclassified to a long-term liability in the December 27, 2014 balance sheet to conform to the current period presentation. This reclassification had no effect on previously reported net income and is considered immaterial.

Standby Letters of Credit

During the ordinary course of business, we provide standby letters of credit instruments to certain parties as required. At December 26, 2015, the maximum potential amount of future payments that we could be required to make under these standby letters of credit was approximately \$0.2 million. We are required to maintain deposits of cash or other approved investments, which serve as collateral, in amounts that approximate our outstanding standby letters of credit. We have not recorded any liability in connection with these arrangements beyond that required to appropriately account for the underlying transaction being guaranteed. We do not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these arrangements.

Lines of Credit

Our wholly owned Ismeca subsidiary has two available lines of credit which provide it with borrowings of up to a total of 2.5 million Swiss Francs. At December 26, 2015 and December 27, 2014 no amounts were outstanding under the lines of credit.

11. Accumulated Other Comprehensive Income (Loss)

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

<i>(in thousands)</i>	Before Tax amount	Tax (Expense) Benefit	Net of Tax Amount
Year ended December 28, 2013			
Foreign currency translation adjustments	\$ 3,270	\$ -	\$ 3,270
Adjustments related to postretirement benefits	1,889	(285)	1,604
Change in unrealized gain/loss on investments	(14)	8	(6)
Other comprehensive income (loss)	<u>\$ 5,145</u>	<u>\$ (277)</u>	<u>\$ 4,868</u>
Year ended December 27, 2014			
Foreign currency translation adjustments	\$ (14,107)	\$ -	\$ (14,107)
Adjustments related to postretirement benefits	(3,809)	551	(3,258)
Other comprehensive income (loss)	<u>\$ (17,916)</u>	<u>\$ 551</u>	<u>\$ (17,365)</u>
Year ended December 26, 2015			
Foreign currency translation adjustments	\$ (11,000)	\$ -	\$ (11,000)
Adjustments related to postretirement benefits	(24)	(34)	(58)
Other comprehensive income (loss)	<u>\$ (11,024)</u>	<u>\$ (34)</u>	<u>\$ (11,058)</u>

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

<i>(in thousands)</i>	2015	2014
Accumulated net currency translation adjustments	\$ (19,327)	\$ (8,327)
Accumulated net adjustments related to postretirement benefits	(2,445)	(2,387)
Total accumulated other comprehensive loss	<u>\$ (21,772)</u>	<u>\$ (10,714)</u>

12. Quarterly Financial Data (Unaudited)

Quarter		First (a)		Second (a)		Third (a)		Fourth (a)		Year	
<i>(in thousands, except per share data)</i>											
Net sales:	2015	\$	63,447	\$	75,211	\$	67,512	\$	63,484	\$	269,654
	2014	\$	60,170	\$	74,299	\$	91,573	\$	90,587	\$	316,629
Gross profit:	2015	\$	20,145	\$	25,702	\$	22,794	\$	20,397	\$	89,038
	2014	\$	20,030	\$	24,263	\$	32,952	\$	28,727	\$	105,972
Income (loss) from continuing operations	2015	\$	(1,720)	\$	3,887	\$	1,335	\$	2,290	\$	5,792
	2014	\$	(2,707)	\$	2,200	\$	10,012	\$	5,275	\$	14,780
Net income (loss)	2015	\$	(2,740)	\$	(72)	\$	1,113	\$	1,949	\$	250
	2014	\$	(3,348)	\$	4,163	\$	7,519	\$	374	\$	8,708
Income (loss) per share (b):											
Basic:											
Income (loss) from continuing operations	2015	\$	(0.07)	\$	0.15	\$	0.05	\$	0.09	\$	0.22
	2014	\$	(0.11)	\$	0.09	\$	0.39	\$	0.21	\$	0.58
Net income (loss)	2015	\$	(0.11)	\$	0.00	\$	0.04	\$	0.07	\$	0.01
	2014	\$	(0.13)	\$	0.16	\$	0.30	\$	0.01	\$	0.34
Diluted:											
Income (loss) from continuing operations	2015	\$	(0.07)	\$	0.15	\$	0.05	\$	0.08	\$	0.22
	2014	\$	(0.11)	\$	0.09	\$	0.38	\$	0.20	\$	0.57
Net income (loss)	2015	\$	(0.11)	\$	0.00	\$	0.04	\$	0.07	\$	0.01
	2014	\$	(0.13)	\$	0.16	\$	0.29	\$	0.01	\$	0.33

(a) All quarters presented above were comprised of 13 weeks.

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Cohu, Inc.

We have audited the accompanying consolidated balance sheets of Cohu, Inc. as of December 26, 2015 and December 27, 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 26, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cohu, Inc. at December 26, 2015 and December 27, 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 26, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cohu, Inc.'s internal control over financial reporting as of December 26, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 23, 2016 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Diego, California
February 23, 2016

Index to Exhibits

15. (b) The following exhibits are filed as part of, or incorporated into, the 2015 Cohu, Inc. Annual Report on Form 10-K:

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference to Exhibit 3.1(a) from the Cohu, Inc. Form 10-Q for the quarterly period ended June 30, 1999
3.1(a)	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference from the Cohu, Inc. Form S-8 filed June 30, 2000, Exhibit 4.1(a)
3.2	Amended and Restated Bylaws of Cohu, Inc. incorporated herein by reference to Exhibit 3.2 from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 1996
10.1	Amended Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference to Exhibit 10.1 from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on May 13, 2015*
10.2	Amended Cohu, Inc. 1997 Employee Stock Purchase Plan, incorporated herein by reference to Exhibit 10.2 from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on May 13, 2015*
10.3	Cohu, Inc. Deferred Compensation Plan (as amended and restated) incorporated herein by reference to Exhibit 10.1 from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2008*
10.4	Form of employee restricted stock unit agreement for use with restricted stock units granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference to Exhibit 10.1 from the Cohu, Inc. Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 4, 2015*
10.5	Form of non-employee director restricted stock unit agreement for use with restricted stock units granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference to Exhibit 10.2 from the Cohu, Inc. Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 4, 2015*
10.6	Form of non-employee director restricted stock unit deferral election form for use with restricted stock units granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference to Exhibit 10.3 from the Cohu, Inc. Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 4, 2015*
10.7	Non-employee director fee deferral election form incorporated herein by reference to Exhibit 10.4 from the Cohu, Inc. Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 4, 2015*
10.8	Form of deferred stock agreement for shares granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference to Exhibit 10.5 from the Cohu, Inc. Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 4, 2015*
10.9	Form of stock option agreement for use with stock options granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference to Exhibit 10.6 from the Cohu, Inc. Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 4, 2015*

10.10	Intel Corporation Purchase Agreement Capital Equipment, Goods and Services, dated April 30, 2012, by and between Delta Design, Inc. and Intel Corporation incorporated herein by reference to Exhibit 99.1 from the Cohu, Inc. Current Report on Form 8-K/A filed August 1, 2012
10.11	Form of Indemnity Agreement, incorporated by reference to Exhibit 10.1 from the Cohu, Inc. Current Report on Form 8-K filed July 28, 2008*
10.12	Cohu, Inc. Retiree Health Benefits Agreement (as amended) incorporated herein by reference to Exhibit 10.2 from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2008*
10.13	Cohu, Inc. Change in Control Agreement incorporated herein by reference to Exhibit 10.3 from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2008*
10.14	Lease agreement dated December 4, 2015 by and between CT Crosthwaite I, LLC and Cohu, Inc.
21	Subsidiaries of Cohu, Inc.
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 for Luis A. Müller
31.2	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 for Jeffrey D. Jones
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Luis A. Müller
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Jeffrey D. Jones
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COHU, INC.

Date: February 23, 2016

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ James A. Donahue</u> James A. Donahue	Chairman of the Board, Director	February 23, 2016
<u>/s/ Luis A. Müller</u> Luis A. Müller	President and Chief Executive Officer, Director (Principal Executive Officer)	February 23, 2016
<u>/s/ Jeffrey D. Jones</u> Jeffrey D. Jones	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	February 23, 2016
<u>/s/ William E. Bendush</u> William E. Bendush	Director	February 23, 2016
<u>/s/ Steven J. Bilodeau</u> Steven J. Bilodeau	Director	February 23, 2016
<u>/s/ Andrew M. Caggia</u> Andrew M. Caggia	Director	February 23, 2016
<u>/s/ Robert L. Ciardella</u> Robert L. Ciardella	Director	February 23, 2016
<u>/s/ Karl H. Funke</u> Karl H. Funke	Director	February 23, 2016

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

Description	Balance at Beginning of Year	Additions (Reductions) Not Charged to Expense	Additions (Reductions) Charged (Credited) to Expense	Deductions/ Write-offs	Balance at End of Year
Allowance for doubtful accounts:					
Year ended December 28, 2013	\$ 12	\$ 353 ⁽²⁾	\$ 172	\$ 207	\$ 330
Year ended December 27, 2014	\$ 330	\$ (1) ⁽¹⁾	\$ (126)	\$ 24	\$ 179
Year ended December 26, 2015	\$ 179	\$ 1 ⁽¹⁾	\$ 19	\$ 128	\$ 71
Reserve for excess and obsolete inventories:					
Year ended December 28, 2013	\$ 25,261	\$ 7,398 ⁽³⁾	\$ 7,068	\$ 4,506	\$ 35,221
Year ended December 27, 2014	\$ 35,221	\$ (762) ⁽¹⁾	\$ 2,624	\$ 9,232	\$ 27,851
Year ended December 26, 2015	\$ 27,851	\$ (648) ⁽¹⁾	\$ 2,409	\$ 2,959	\$ 26,653

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

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

(2) Includes \$0.4 million resulting from Ismecca Acquisition on December 31, 2012 and foreign currency impact.

(3) Includes \$6.8 million resulting from Ismecca Acquisition on December 31, 2012, foreign currency impact and reclass from other reserves.

LEASE

BY AND BETWEEN

**CT CROSTHWAITE I, LLC,
a Delaware limited liability company,**

AS LANDLORD,

AND

**COHU, INC.,
a Delaware corporation,**

AS TENANT

12367 Crosthwaite Circle

SUITE 100

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LEASE

This Lease ("**Lease**") is made and entered into as of the ____ day of December, 2015, by and between CT CROSTHWAITE I, LLC, a Delaware limited liability company ("**Landlord**"), and COHU, INC., a Delaware corporation ("**Tenant**").

Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the premises described as Suite No. 100, as designated as the Cohu Lease Area on the plan attached hereto and incorporated herein as Exhibit "A" ("**Premises**"), of the project ("**Project**") whose address is 12367 Crosthwaite Circle, Poway, California 92064, for the Term and upon the terms and conditions hereinafter set forth, and Landlord and Tenant hereby agree as follows:

ARTICLE 1
BASIC LEASE PROVISIONS

- A. Term:** Approximately ten (10) years.
- Commencement Date:** December __, 2015
- Expiration Date:** December 31, 2025
- B. Square Footage of Premises:** Approximately 146,635 rentable square feet. The square footage of the Premises includes Tenant's prorata share of the shared electrical room and any other shared utility room in the Project (collectively, the "**Shared Space**").
- C. Basic Rental:**

	<u>Months</u>	<u>Monthly Basic Rental</u>	<u>Approximate Monthly Basic Rental Per Rentable Square Foot</u>
	1-12*	\$131,971.50	\$.900
	13-24	\$135,930.64	\$.927
	25-36	\$140,008.55	\$.955
	37-48	\$144,208.80	\$.983
	49-60	\$148,535.06	\$1.013
	61-72	\$152,991.11	\$1.043
	73-84	\$157,580.84	\$1.075
	85-96	\$162,308.26	\$1.107
	97-108	\$167,177.50	\$1.140
	109-120	\$172,192.82	\$1.174

*Plus any partial month at the beginning of the Term.

- D. Tenant's Proportionate Share:** 43.22%, based upon a total of 339,264 rentable square feet in the Project.
- E. Security Deposit:** A security deposit of \$131,971.50 shall be due and payable by Tenant to Landlord upon the Commencement Date.
- F. Permitted Use:** Research and development, warehouse, manufacturing and general office use.
- G. Broker:** CBRE, Inc. (representing Tenant only).
- H. Parking:** Tenant shall be entitled to use three (3) parking spaces for each 1,000 rentable square feet contained in the Premises, which equals four hundred forty (440) spaces, upon the terms and conditions provided in Article 23 hereof. Tenant shall have the exclusive right to use those parking spaces depicted on Exhibit "D" attached hereto and made a part hereof and Tenant's remaining parking spaces shall be for unreserved parking.

ARTICLE 2
TERM/PREMISES

The Term of this Lease shall commence on the Commencement Date as set forth in Article 1.A. of the Basic Lease Provisions and shall end on the Expiration Date set forth in Article 1.A. of the Basic Lease Provisions. Landlord and Tenant hereby stipulate that the Premises contains the number of square feet specified in Article 1.B. of the Basic Lease Provisions. Landlord shall deliver to Tenant a Commencement Letter in a form substantially similar to that attached hereto as Exhibit "B", which Tenant shall edit (if necessary), execute and return to Landlord within thirty (30) days of receipt thereof.

ARTICLE 3
RENTAL

(a) **Basic Rental.** Tenant agrees to pay to Landlord during the Term hereof, at Landlord's office or to such other person or at such other place as directed from time to time by written notice to Tenant from Landlord, the monthly sums as set forth in Article 1.C. of the Basic Lease Provisions, payable in advance on the first (1st) day of each calendar month, without demand, setoff or deduction (except as expressly provided in this Lease) in lawful money of the United States, and in the event this Lease commences or the date of expiration of this Lease occurs other than on the first (1st) day or last day of a calendar month, the rent for such month shall be prorated based upon the actual number of days in such month. If the Commencement Date is not the first day of a month, Basic Rental for the partial month commencing as of the Commencement Date shall be prorated based upon the actual number of days in such month and shall be due and payable upon the Commencement Date.

(b) Direct Costs. Tenant shall pay an additional sum for each calendar year during the Term equal to the product of the percentage set forth in Article 1.D. of the Basic Lease Provisions multiplied by the amount of "Direct Costs." In the event this Lease shall terminate on any date other than the last day of a calendar year, the additional sum payable hereunder by Tenant during the calendar year in which this Lease terminates shall be prorated on the basis of the relationship which the number of days which have elapsed from the commencement of said calendar year to and including said date on which this Lease terminates bears to three hundred sixty five (365). Any and all amounts due and payable by Tenant pursuant to this Lease (other than Basic Rental) shall be deemed "**Additional Rent**" and Landlord shall be entitled to exercise the same rights and remedies upon default in these payments as Landlord is entitled to exercise with respect to defaults in monthly Basic Rental payments.

(c) Definitions. As used herein the term "**Direct Costs**" shall mean the sum of the following:

(i) "**Tax Costs**", which shall mean any and all real estate taxes and other similar charges on real property or improvements, assessments, water and sewer charges, and all other charges assessed, reassessed or levied upon the Project and appurtenances thereto and the parking or other facilities thereof, or the real property thereunder (collectively the "**Real Property**") which are assessed, reassessed or levied by the United States, the State of California or any local government authority or agency or any political subdivision thereof, and shall include Landlord's reasonable legal fees, costs and disbursements incurred in connection with proceedings for reduction of Tax Costs or any part thereof. Any taxes or assessments that may be paid over more than a one-year period shall be included in Tax Costs as if such payments were made in the maximum number of installments permitted by applicable law and only the portion thereof attributable to a given year shall be included in Tax Costs for that year. Notwithstanding anything to the contrary contained in this Section 3(c)(i), there shall be excluded from Tax Costs (i) all excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state income taxes, and other taxes to the extent applicable to Landlord's general or net income, (ii) any items included as Operating Costs, and (iii) any items paid by Tenant under Article 6 of this Lease. In no event shall Tenant be permitted to contest Tax Costs for the Project; provided that if Landlord and Tenant mutually agree in good faith that a tax contest is warranted, Landlord shall contest the Tax Costs for the Project.

(ii) "**Operating Costs**", which shall mean all costs and expenses incurred by Landlord in connection with the maintenance, operation and repair of the Project including the Common Areas of the Project as defined below. Operating Costs shall include but not be limited to, personal property taxes on property used in the maintenance and operation of the Project; fees, costs, expenses or dues payable pursuant to the terms of any covenants, conditions or restrictions or owners' association pertaining to the Project; capital expenditures incurred to effect economies of operation of the Project where the economies reasonably expected to be achieved each year are in excess of the reasonably expected annual amortized cost of such expenditure and capital expenditures required by Laws not in effect as of the Commencement Date; provided, however, that capital expenditures included in Operating Costs shall be amortized over their useful life as determined in accordance with generally accepted accounting principles; charges for electricity, gas, water and other utilities furnished to the common areas of the Project and any taxes thereon; all charges for fire and extended coverage, liability and all other insurance in connection with the Project carried by Landlord; the cost of all building and cleaning supplies and materials; all charges for service contracts and other services with independent contractors for repair, maintenance and operation of the Project; a property management fee in the amount of two percent (2%) of Basic Rental per year and license, permit and inspection fees relating to the operation, maintenance and repair of Project. As used herein, the term "**Common Area**" is defined for all purposes of this Lease as that part of the Project intended for the common use of all tenants and their employees and other invitees, including among other facilities (as such may be applicable to the Project), the Shared Space, the parking areas, private streets and alleys, landscaping, curbs, sidewalks, lighting facilities and the like, as they may exist from time to time. In addition, although the roof of the building in the Project is not literally part of the Common Area, it will be deemed to be so included solely for purposes of (A) Landlord's ability to prescribe rules and regulations regarding same (subject to Section 30(p) below), and (B) Tenant's obligations to pay Operating Costs with respect thereto (subject to the express exclusions below). Landlord reserves the right subject to the provisions of Article 12 below regarding the cooling tower, to change from time to time the dimensions, size and location of the Common Area, as well as the dimensions, identities, locations, number, size and types of signs or other improvements in the Project, including, without limitation, driveways, entrances, parking spaces, parking areas, loading areas, ingress, egress, direction of traffic, walkways and landscape areas; provided, however, that no such changes will materially and adversely impair Tenant's parking rights pursuant to Article 23 hereof, the access to the Premises or the area immediately adjacent to Tenant's primary entry. In no event shall Tenant be permitted to erect any structures, fencing or other improvements in the Common Area.

Notwithstanding anything above to the contrary, Operating Costs shall not include (1) the cost of providing any service directly to and paid directly by any tenant (outside of such tenant's Direct Cost payments) such as where a Tenant directly contracts for electric power or other utilities with the local public services company; (2) the cost of any items for which Landlord is reimbursed by insurance proceeds, condemnation awards, a tenant of the Project (outside of such tenant's Direct Cost payments), or otherwise to the extent so reimbursed; (3) any real estate brokerage commissions or other costs incurred in procuring tenants, or any fee in lieu of commission; (4) amortization of principal and interest on mortgages or ground lease payments (if any); (5) costs of items considered capital repairs, replacements, improvements and equipment under generally accepted accounting principles consistently applied except as expressly included in Operating Costs pursuant to the definition above; (6) costs incurred by Landlord due to the violation by Landlord or any tenant of the terms and conditions of any lease of space in the Project or any law, code, regulation, ordinance or the like; (7) any compensation paid to clerks, attendants or other persons in commercial concessions operated by Landlord; (8) bad debt expenses and interest, principal, points and fees on debts; (9) marketing costs, including those costs described in (3) above, attorneys' fees in connection with the negotiation and preparation of letters, deal memos, letters of intent, leases, subleases and/or assignments, space planning costs, and other costs and expenses incurred in connection with lease, sublease and/or assignment negotiations and transactions with present or prospective tenants or other occupants of the Project, including attorneys' fees and other costs and expenditures incurred in connection with disputes with present or prospective tenants or other occupants of the Project; (10) costs, including permit, license and inspection costs, incurred with respect to the installation of other tenants' or occupants' improvements made for tenants or other occupants in the Project or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants in the Project; (11) any costs expressly excluded from Operating Costs elsewhere in this Lease; (12) costs of any items (including, but not limited to, costs incurred by Landlord for the repair of damage to the Project) to the extent Landlord receives reimbursement from insurance proceeds or from a third party (except that any commercially reasonable deductible amount under any insurance policy shall be included within Operating Costs up to a maximum of \$100,000.00 per casualty [provided that such maximum shall not be applied to any earthquake deductible so long as any earthquake deductible is amortized over the useful life of the repair and in no event shall Tenant's Proportionate Share thereof exceed \$75,000.00 per year]); (13) rentals and other related expenses for leasing an HVAC system, elevators, or other items (except when needed in connection with normal repairs and maintenance of the Project) which if purchased, rather than rented, would constitute a capital improvement not included in Operating Costs pursuant to this Lease; (14) depreciation, amortization and interest payments, except as specifically included in Operating Costs pursuant to the terms of this Lease and except on materials, tools, supplies and vendor-type equipment purchased by Landlord to enable Landlord to supply services Landlord might otherwise contract for with a third party, where such depreciation, amortization and interest payments would otherwise have been included in the charge for such third party's services, all as determined in accordance with generally accepted accounting principles, consistently applied, and when depreciation or amortization is permitted or required, the item shall be amortized over its reasonably anticipated useful life; (15) expenses in connection with services or other benefits which are not offered to Tenant or for which Tenant is charged for directly but which are provided to another tenant or occupant of the Project, without charge; (16) costs (including in connection therewith all attorneys' fees and costs of settlement, judgments and/or payments in lieu thereof) arising from claims, disputes or potential disputes in connection with potential or actual claims litigation or arbitrations pertaining to Landlord and/or the Project; (17) costs associated with the operation of the business of the partnership, corporation or limited liability company which constitutes Landlord as the same are distinguished from the costs of operation of the Project; (18) costs incurred to remove, remedy, contain, or treat any Hazardous Material; (19) any salaries or benefits for property management personnel (except that for personnel that provide maintenance and repair services to the Project, such salaries and benefits may be included in Operating Costs, provided that such costs for any individual who provides services to any other building or project shall be prorated based upon time devoted to this Project); (20) costs and expenses otherwise includable in Operating Costs to the extent the same arise from the negligence or tortious acts of Landlord or any of Landlord's agents, employees or contractors; or (21) any overhead and/or profit increment paid to Landlord or to subsidiaries or affiliates or Landlord for services in the Project to the extent the same exceed the amount which would generally be expected to be the cost of such services rendered by comparably qualified unaffiliated third parties.

Notwithstanding anything to the contrary contained herein, the aggregate Controllable Operating Costs, as that term is defined below, shall not increase more than four percent (4%) in any calendar year over the maximum amount of Controllable Operating Costs chargeable for the immediately preceding calendar year, calculated on a cumulative basis. "**Controllable Operating Costs**" shall mean all Direct Costs except Tax Costs, utility charges, insurance costs, trash collection costs, costs of services provided under a union contract, payments under CC&R's or to an owners' association, capital expenditures that are permitted herein, and costs associated with repairs due to casualty.

(d) Determination of Payment.

(i) Landlord shall give Tenant a yearly expense estimate statement (the "**Estimate Statement**") which shall set forth Landlord's reasonable estimate (the "**Estimate**") of what the total amount of Direct Costs for the then-current calendar year shall be and Tenant's Proportionate Share thereof. Tenant shall pay, within thirty (30) days after receipt of the Estimate Statement, a fraction of the Estimate for the then-current calendar year (reduced by any amounts paid pursuant to the last sentence of this Section 3(d)(i)). Such fraction shall have as its numerator the number of months which have elapsed in such current calendar year to the month of such payment, both months inclusive, and shall have twelve (12) as its denominator. Until a new Estimate Statement is furnished, Tenant shall pay monthly, with the Monthly Basic Rental installments, an amount equal to one-twelfth (1/12th) of the total Estimated Direct Costs set forth in the previous Estimate Statement delivered by Landlord to Tenant.

(ii) In addition, Landlord shall give to Tenant within one hundred twenty (120) days following the end of each calendar year, a statement (the "**Statement**") which shall state the Direct Costs incurred or accrued for such preceding calendar year. Upon receipt of the Statement for each calendar year during the Term, if amounts paid by Tenant on an estimated basis pursuant to Section 3(d)(i) above are less than Tenant's Proportionate Share of the actual Direct Costs for such year as specified on the Statement, Tenant shall pay, within thirty (30) days thereafter, the full amount of Direct Costs for such calendar year, less the amounts paid during such calendar year on an estimated basis pursuant to Section 3(d)(i) above. If, however, the Statement indicates that amounts paid by Tenant on an estimated basis pursuant to Section 3(d)(i) above are greater than Tenant's Proportionate Share of the actual Direct Costs for such year as specified on the Statement, such overpayment shall be refunded to Tenant within thirty (30) days after the Statement. The failure of Landlord to timely furnish the Statement for any calendar year shall not prejudice Landlord from enforcing its rights under this Article 3, for a period of twelve (12) months after the expiration of such one hundred twenty (120) day period, except where the failure to timely furnish the Statement as to any particular item includable in the Statement is beyond Landlord's reasonable control (e.g. tax assessments that are late in arriving from the assessor), in which case such twelve (12) month limit shall not be applicable. Even though the Term has expired and Tenant has vacated the Premises, when the final determination is made of Tenant's Proportionate Share of the Direct Costs for the calendar year in which this Lease terminates, Tenant shall pay to Landlord an amount as calculated pursuant to the provisions of this Section 3(d).

(e) Use of Common Area. Tenant and its employees and invitees, and when duly authorized pursuant to the provisions of this Lease, its subtenants and licensees, shall have the nonexclusive right to use the Common Area (expressly excluding the roof of the building in the Project other than for Tenant to comply with its repair and maintenance obligations under Article 9 below and except as provided in Section 30(p) below [but otherwise subject to the provisions thereof]) as constituted from time to time, such use to be in common with Landlord, other tenants in the Project and other persons permitted by Landlord to use the same, and subject to such reasonable rules and regulations governing use as Landlord may from time to time prescribe. For example, and without limiting the generality of Landlord's ability to establish rules and regulations governing all aspects of the Common Area, Tenant agrees as follows:

(i) Tenant shall not take any action which would unreasonably interfere with the rights of other persons to use the Common Area.

(ii) Landlord may temporarily close any part of the Common Area for such periods of time as may be necessary to make repairs or alterations or during construction or to prevent the public from obtaining prescriptive rights, provided that access to the Premises remains reasonably available and Landlord uses reasonable efforts to minimize any disruption to Tenant's use and enjoyment of the Premises and the parking to which it is entitled hereunder.

(iii) With regard to the roof of the building in the Project, any use of the roof whatsoever is hereby exclusively reserved to Landlord for any and all purposes and in all respects in its reasonable discretion other than for Tenant to comply with its repair and maintenance obligations under Article 9 below and except as provided in Section 30(p) below (but otherwise subject to the provisions thereof). Landlord shall otherwise have the exclusive rights to use, possess, lease, alter, construct on, or otherwise manage the roof in its reasonable discretion. In performing Tenant's obligations pursuant to Article 9 and Section 30(p), Tenant shall take no action and Tenant will comply with all Landlord requirements in connection therewith that would invalidate any roof warranty.

(f) Maintenance of Common Area. Subject to Tenant's reimbursement obligations set forth in this Article 3, Landlord shall be responsible for the operation, management and maintenance of the Common Area, the manner of maintenance and the expenditures therefore to be generally in keeping with similar properties within the same geographical area as the Project. Without limiting the generality of the immediately preceding sentence, Tenant acknowledges that **LANDLORD MAKES NO REPRESENTATION, COVENANT OR WARRANTY REGARDING WHETHER OR NOT LANDLORD WILL PROVIDE SECURITY SERVICES, OR IF SO, WHAT FORM OF SECURITY SERVICES WILL BE PROVIDED.** However, notwithstanding anything to the contrary contained herein, Tenant may maintain a security system for the Premises, at Tenant's sole cost, which may include, without limitation, security personnel at a security desk at the entrance to the Premises; provided that Landlord reserves the right to have Tenant, at Tenant's cost, upon the expiration or early termination of this Lease, to remove any security system which does not exist as of the date hereof and to repair any damage caused thereby.

ARTICLE 4
SECURITY DEPOSIT

Tenant has deposited or concurrently herewith is depositing with Landlord the sum set forth in Article 1.E. of the Basic Lease Provisions as security for the full and faithful performance of every provision of this Lease to be performed by Tenant. If Tenant breaches any provision of this Lease, including but not limited to the payment of rent, Landlord may use all or any part of this Security Deposit for the payment of any rent or any other sums in default, or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. If any portion of said deposit is so used or applied, Tenant shall, within ten (10) days after written demand therefor, deposit funds with Landlord in an amount sufficient to restore the Security Deposit to its full amount. Tenant agrees that Landlord shall not be required to keep the Security Deposit in trust, segregate it or keep it separate from Landlord's general funds, but Landlord may commingle the Security Deposit with its general funds and Tenant shall not be entitled to interest on such Security Deposit. Subject to this Article 4, within thirty (30) days after Tenant (i) has surrendered the Premises to Landlord (which, Landlord and Tenant agree, includes turning over to Landlord's representative all keys to the Premises), and (ii) has provided Landlord with a forwarding address, Landlord shall return to Tenant the portion of the Security Deposit remaining after deducting all damages, charges and other amounts permitted by the terms of this Lease and applicable law. Tenant acknowledges and agrees that if Tenant has breached this Lease before or during Tenant's surrendering the Premises to Landlord, then Landlord shall be entitled to deduct from the Security Deposit being returned to Tenant (if any) all damages and losses that Landlord has suffered as a result of such breach of this Lease by Tenant under Article 20 below. Tenant hereby waives the provisions of Section 1950.7 of the California Civil Code and agrees that the provisions of this Article 4 shall govern the treatment of Tenant's Security Deposit in all respects for this Lease.

If Landlord transfers its interest in the Premises during the Term of this Lease, Landlord may assign the Security Deposit to the transferee and upon such transfer and the transferee's written acknowledgement of responsibility for the Security Deposit (which acknowledgement will be deemed to have been effected if the transferee assumes the obligations of the Landlord under this Lease (i.e., even without a specific mention of the Security Deposit), Landlord shall thereafter have no further liability for the return of the Security Deposit.

ARTICLE 5
HOLDING OVER

Tenant is not permitted to hold over possession of the Premises after the expiration or earlier termination of the Term without the express prior written consent of Landlord, which consent Landlord may withhold in its sole and absolute discretion. Should Tenant, without Landlord's written consent, hold over after expiration or earlier termination of this Lease, Tenant shall become a tenant at sufferance upon each and all of the terms herein provided as may be applicable to such a tenancy and any such holding over shall not constitute an extension of this Lease. During such holding over, Tenant shall pay in advance, Basic Rental at a rate equal to one hundred twenty-five percent (125%) of the rate in effect for the last month of the Term of this Lease for the first ninety (90) days of such holdover, and one hundred fifty percent (150%) of the rate in effect for the last month of the Term thereafter. Any such payments shall be in addition to, and not in lieu of, all other payments required to be made by Tenant hereunder including but not limited to Tenant's Proportionate Share of Direct Costs. Nothing contained in this Article 5 shall be construed as consent by Landlord to any holding over of the Premises by Tenant, and Landlord expressly reserves the right to require Tenant to surrender possession of the Premises to Landlord as provided in this Lease upon the expiration or earlier termination of the Term. In no event shall Tenant be responsible for any consequential damages incurred by Landlord due to a holdover by Tenant.

ARTICLE 6
OTHER TAXES

Tenant shall pay, prior to delinquency, all taxes assessed against or levied upon trade fixtures, furnishings, equipment and all other personal property of Tenant located in the Premises. Tenant shall assume and pay to Landlord at the time Basic Rental next becomes due (or if assessed after the expiration of the Term, then within ten (10) days), any excise, sales, use, rent, occupancy, garage, parking, gross receipts or other taxes (other than net income taxes) which may be assessed against or levied upon Landlord on account of the letting of the Premises or the payment of Basic Rental or any other sums due or payable hereunder, and which Landlord may be required to pay or collect under any law now in effect or hereafter enacted. In addition to Tenant's obligation pursuant to the immediately preceding sentence, Tenant shall pay directly to the party or entity entitled thereto all business license fees, gross receipts taxes and similar taxes and impositions which may from time to time be assessed against or levied upon Tenant, as and when the same become due and before delinquency. Notwithstanding anything to the contrary contained herein, any sums payable by Tenant under this Article 6 shall not be included in the computation of "Tax Costs."

ARTICLE 7
PERMITTED USE/COMPLIANCE WITH LAWS

(a) **Permitted Use.** Tenant shall use and occupy the Premises only for the use set forth in Article 1.F. of the Basic Lease Provisions and shall not use or occupy the Premises or permit the same to be used or occupied for any other purpose without the prior written consent of Landlord.

(b) **Compliance with Laws.** Tenant shall, at its sole cost and expense, promptly comply with all laws, statutes, ordinances, governmental regulations or requirements (collectively, "**Laws**") now in force or which may hereafter be in force relating to or affecting (i) the condition, use or occupancy of the Premises (excluding structural changes not related to Tenant's particular use of the Premises), and (ii) Alterations installed or constructed in the Premises by or on behalf of Tenant. Landlord shall be responsible for compliance with all Laws with respect to the Common Areas of the Project and the Real Property and all other portions of the Project other than those which are the responsibility of Tenant pursuant to the immediately preceding sentence. In addition to the foregoing, Tenant shall procure at its sole expense any permits and licenses required for the transaction of business in the Premises. At Landlord's request, Tenant shall deliver to Landlord copies of all necessary permits and licenses.

(c) **Certain Prohibited Uses.** Tenant shall not conduct or give notice of any fire, auction (public or private), "going-out-of-business," "lost-our-lease," "moving," bankruptcy or similar sale at or on the Premises. Tenant shall not permit any objectionable noises, odors, vibrations, dust, gas, exhaust or smoke to emanate from the Premises (or from any facility or equipment servicing the Premises); nor except as provided in Section 30(p) below (but subject to the provisions set forth therein) place or permit any radio or television antenna, satellite dish, loudspeaker or amplifier on the roof or exterior walls or outside the Premises or where the same can be seen or heard from outside the Premises; nor place any antenna, equipment, awning or other projection on the exterior of the Premises or any building; nor take any other action which would constitute a nuisance or would unreasonably interfere with, disturb or endanger Landlord or other tenants of the Project, or unreasonably interfere with their use of their respective premises; nor permit any unlawful practice to be carried on or committed on the Premises; nor do or permit anything which would void Tenant's or Landlord's insurance. If Tenant causes any increase in the cost of insurance on the Premises or the Project, then Tenant shall pay to Landlord the amount of such increase as Additional Rent.

(d) Care of Premises by Tenant. Tenant shall take good care of the Premises and shall operate in the Premises in a safe, careful and proper manner; shall not commit or suffer waste in or about the Premises, nor to any facility or equipment for which Tenant is responsible; and shall keep the Premises free of insects, rodents, vermin and other pests. As indicated in Section 3(f) above, Tenant hereby acknowledges that security is Tenant's responsibility and that Tenant is not relying on any representation or warranty by Landlord in this regard. Tenant shall not overload the floors in the Premises, nor deface or injure the Premises. Tenant shall store all trash and garbage within the Premises, or in a trash dumpster or similar container and Landlord shall arrange for trash pick-up for the Project as part of Operating Costs. Outside storage, including, without limitation, storage of containers, trailers, trucks and other vehicles, is prohibited without Landlord's prior written consent, which may be withheld in Landlord's sole and absolute discretion.

(e) Tenant Financial Statements. In connection with a proposed sale or refinance of the Project and not more than one (1) time in any calendar year, Tenant shall, within ten (10) business days after a request from Landlord, deliver to Landlord such financial statements as are reasonably requested by Landlord that have been previously prepared by Tenant to verify the net worth of Tenant. However, the immediately preceding sentence shall not apply if, at such time, Tenant is publicly traded. Tenant further agrees to cooperate with any reasonable request by Landlord for Tenant's written permission or other cooperation in connection with Landlord's obtaining, at Landlord's sole cost, a credit report or similar information regarding Tenant from third-party sources.

(f) Confidentiality; Marketing Materials. Landlord shall use good faith efforts to keep confidential all non-public financial statements supplied by Tenant; however, if Landlord notifies such parties of the requirement to keep such information confidential, Landlord has the right to reveal such information to mortgagees, prospective purchasers and prospective mortgagees (and their respective agents) and to Landlord's managers, officers, personnel, affiliates, partners, directors, advisors, accountants, attorneys, members, and consultants, and as may be required by Law, including, without limitation, securities regulations, or by legal process; and, provided further, that Landlord and Landlord's affiliates have the right to include, disclose, or otherwise publicize Tenant's name as one of Landlord's or Landlord's affiliates' tenants in any of Landlord's marketing materials, press releases, presentations, or other disclosures. The following materials and information are not considered "non-public financial statements" for purposes of this Lease and will not be subject to the restrictions set for in the preceding sentence: (i) information which is or becomes generally available to the public other than as a result of a wrongful disclosure by Landlord; (ii) information which reasonably can be demonstrated to be known to Landlord prior to its disclosure by Tenant hereunder; (iii) information which becomes available to Landlord on a non-confidential basis from sources other than Tenant; and (iv) information which Landlord may be compelled to disclose by court order or applicable law.

ARTICLE 8
CONDITION OF PREMISES

(a) Existing Condition. Landlord and Tenant acknowledge that Tenant has, prior to the Commencement Date, owned the Project and occupied the Premises. Tenant hereby agrees that except as provided in this Lease (including, without limitation, the following provisions of this Article 8 and Section 11(a), below), the Premises shall be taken "as is", "with all faults", and "without any representations or warranties", and Landlord makes no warranty of any kind, express or implied, with respect to the Premises and the Real Property (without limitation, Landlord makes no warranty as to the habitability, fitness or suitability of the Premises for a particular purpose, nor as to compliance with any laws, rules or regulations, nor as to the absence of any toxic or otherwise Hazardous Materials).

(b) Landlord's Work. Landlord shall, at Landlord's sole cost, cause the following work to be performed: (a) within one (1) year after the Commencement Date, install RainShield RS-2P-3W roofing system (or its equivalent) with twenty (20) year guarantee including installation of new curb mount, steel frame, single dome skylights and smoke vents in accordance with the June 8, 2015 proposal from Highland Commercial Roofing (or an equivalent or better proposal from a different vendor, as mutually agreed by Landlord and Tenant), (b) install a demising wall(s) separating the Premises from the remainder of the Project utilizing specifications and materials reasonably determined by Landlord (the "**Demising Work**"), which Demising Work shall include the separation of the electric service as described in Section 11(a) below. In order to separate the electric service, Landlord and Tenant contemplate that the existing 120/208 gear currently serving the Project will be upgraded to 277/480 and then be dedicated to serve the space which is the subject of the Short Term Lease (defined below). The 120/208 load currently connected to the existing 120/208 gear will be disconnected and re-connected (through a new step-down transformer) to the existing 277/480 gear currently serving the Project. A 1.5MW generator will be supplied to maintain the Tenant's 120/208 service during the changeover if change over cannot be scheduled during a period which would not unreasonably interfere with Tenant's business. The existing 277/480 gear will then be dedicated to serve the Premises. The Demising Work shall be completed prior to the date which is the earlier of the date that is one (1) year after Tenant has surrendered the Short Term Lease space to Landlord in the condition required in the Short Term Lease, or the date any new tenant commences occupancy of space in the remainder of the Project, (c) repaint the exterior of the Project utilizing specifications and materials reasonably determined by Landlord and reasonably approved by Tenant, with such work to be completed prior to the date which is two (2) years after the Commencement Date, (d) slurry coat, repair and reseal the parking lot of the Project pursuant to a parking, striping and truck loading plan reasonably determined by Landlord, with such work to be completed on or before the date which is two (2) years after the Commencement Date, and (e) upgrade the landscaping at the Project pursuant to a plan reasonably determined by Landlord within one (1) year after the Commencement Date. Tenant agrees that Landlord shall be provided with access to the Premises to complete such Demising Work in accordance with, and subject to, Article 12 below, and shall reasonably cooperate with Landlord so as to allow Landlord to timely complete all of the foregoing work. Except as otherwise expressly provided in this Lease, Landlord agrees that any costs to relocate electrical conduits required by the Demising Work shall be borne by Landlord and any shutdown of the electrical system to the Premises required by the Demising Work shall be performed pursuant to a schedule mutually acceptable to Landlord and Tenant.

(c) Tenant Improvements. The existing leasehold improvements in the Premises as of the date of this Lease may be collectively referred to herein as the "**Tenant Improvements**."

ARTICLE 9
REPAIRS AND ALTERATIONS

(a) Landlord's Obligations. Landlord shall, as part of Operating Costs to the extent permitted under Article 3 above, maintain the structural portions of the Project in good condition and repair, including the foundation, floor/ceiling slabs, roof, roof membrane, curtain walls, exterior glass, columns, beams, shafts, stairs, stairwells, elevator cabs and common areas, and shall also maintain and repair the basic mechanical, electrical, life safety, plumbing, sprinkler systems and heating, ventilating and air-conditioning systems serving the Project (the "**Project Systems**"), although Tenant shall be responsible, at Tenant's sole cost, for repair and maintenance of any such systems that exclusively service the Premises. Should any of the Project Systems (including, without limitation, any such systems that exclusively serve the Premises such as the heating ventilation and air-conditioning system that exclusively services the Premises ("**HVAC System**") require replacement, Landlord shall be responsible for such replacement, which replacement cost shall be passed through to Tenant as Additional Rent so long as such amount is amortized over the useful life of the replaced system in accordance with the following procedure ("**Agreed Amortization Procedure**"): a monthly straight-line basis commencing as of the date such replacement is placed into service, over the useful life of the replaced system (which useful life is deemed to be ten (10) years for replacement of any HVAC System units). Notwithstanding the foregoing, in the event an R-22 HVAC System unit that exclusively services the Premises fails and cannot be repaired at a cost less than forty percent (40%) of the replacement cost, the unit shall be replaced and the "Initial Aggregate Cost" (defined below) of the replacement of such unit(s) shall be paid for by Tenant as Additional Rent and the remainder of such replacement costs shall be passed through to Tenant as Additional Rent pursuant to the Agreed Amortization Procedure, but with such amortization commencing as of the first day of the next calendar year. The term "**Initial Aggregate Cost**" shall mean Fifty Thousand Dollars (\$50,000.00) in the aggregate for the period which constitutes the first three (3) years of the Term, Forty Thousand Dollars (\$40,000.00) in the aggregate for the fourth (4th) year of the Term, Thirty Thousand Dollars (\$30,000.00) in the aggregate for the fifth (5th) year of the Term, Twenty Thousand Dollars (\$20,000.00) in the aggregate for the sixth (6th) year of the Term, Ten Thousand Dollars (\$10,000.00) in the aggregate for the seventh (7th) year of the Term, and Zero Dollars (\$0) thereafter. Such amortization payments for any of the first seven (7) years shall commence only after Tenant's payment of the Initial Aggregate Cost for such year. By way of example only, and not as limitation upon the foregoing, if in the fifth (5th) year of the Term, five (5) R-22 HVAC System units must be replaced and if the total aggregate cost of such replacements is \$40,000.00 for such year, then the Initial Aggregate Amount for such replacements for such year would be \$30,000.00, which amount will be payable by Tenant as Additional Rent within thirty (30) days after Tenant's receipt of paid invoices from Landlord and the remaining \$10,000.00 of such replacement costs shall be amortized pursuant to the Agreed Amortization Procedure, with such amortization to begin on the first day of the sixth (6th) year of the Term. In no event shall Tenant be responsible for the cost of repair, maintenance or replacement of any heating, ventilation or air-conditioning system that does not service the Premises. Except as expressly provided in Section 9(b) below, Tenant waives the right to make repairs at Landlord's expense under any applicable Laws.

(b) Tenant's Right to Make Repairs.

(i) Notwithstanding any provision set forth in this Lease to the contrary, if Tenant provides written notice to Landlord of an event or circumstance which requires the action of Landlord with respect to repair and/or maintenance under Section 9(a) above (hereinafter, a "**Required Action**"), and Landlord fails to commence such action within a reasonable period of time, given the circumstances, after the receipt of such notice, but in no event later than thirty (30) days after Landlord's receipt of such notice (or sooner in case of emergency, as set forth below in subsection (iii)), then if such repair is in the interior, non-structural portion of the Premises, or if Landlord's failure with respect to such repair and maintenance obligations otherwise materially and adversely affects Tenant's normal business operations, Tenant may proceed to take the required action following the delivery of an additional ten (10) business days notice to Landlord specifying in bold-faced capital letters that: "**LANDLORD'S FAILURE TO PERFORM AN OBLIGATION WITHIN (10) BUSINESS DAYS OF RECEIVING THIS NOTICE MAY RESULT IN TENANT EXERCISING SELF-HELP**", and if such action was required under the terms of the Lease to be taken by Landlord and was not taken by Landlord within such additional ten (10) business day period, then Tenant shall be permitted to perform such repair at Landlord's cost. In the event Tenant takes such action, and such work will affect the Project Systems or the structural integrity of the Project, Tenant shall use only those contractors used by Landlord in the Project for work on such Project Systems or structure unless such contractors are unwilling or unable to perform, or timely perform, such work, in which event Tenant may utilize the services of any other qualified contractor which normally and regularly performs similar work in comparable buildings.

(ii) If Landlord fails to pay to Tenant the actual documented cost of such cure within twenty (20) days following Landlord's receipt of Tenant's demand therefor, including a statement setting forth the amount due, and, if available, executed mechanics' lien releases from the party or parties performing such repairs complying with the appropriate provisions of California Civil Code Sections 8136 and 8138, then Tenant may provide to Landlord a second written demand therefor ("**Second Demand**") which contains the following phrase on page 1 of the notice in all capital letters and boldface type (or it shall not be deemed validly delivered to Landlord) "**YOUR FAILURE TO REIMBURSE TENANT AS REQUIRED HEREIN WITHIN TEN (10) DAYS SHALL ENTITLE THE UNDERSIGNED TO EXERCISE CERTAIN OFFSET RIGHTS AS SET FORTH IN THE LEASE WITHOUT FURTHER NOTICE.**" If Landlord fails to pay to Tenant the amount due to Tenant within ten (10) days following Landlord's receipt of the Second Demand, then Tenant may offset from the next installments of rent and other charges coming due under this Lease the full amount owed by Landlord to Tenant together with interest at the Interest Rate from the date of payment until the date of offset, provided, however, that (i) the amount of offset during any month shall not exceed the greater of (A) ten percent (10%) of the total Basic Rent payable by Tenant to Landlord for such month, or (B) the amount necessary to fully amortize Tenant's cost of cure from the date of completion of such cure to the earlier to occur of (x) the date which is twenty four (24) months after such date of completion, or (y) the expiration date of the Term (without regard to any unexercised renewal options); and (ii) Landlord is not then contesting same (or having contested same, a judgment, decision or ruling in such action, mediation or arbitration has been rendered in favor of Tenant). Tenant shall obtain and deliver to Landlord waivers of liens from all contractors, subcontractors and materialmen providing work or materials with respect to any such repairs performed by or on behalf of Tenant.

(iii) Notwithstanding the foregoing, if there exists an emergency that is not addressed by Article 16 below such that the Premises or a material portion thereof are rendered untenantable or if Tenant is unable to conduct business from a material portion of the Premises as a result of such emergency and if Tenant gives Landlord written notice (the "**Emergency Notice**") of Tenant's intention to take action with respect thereto (the "**Necessary Action**") and the Necessary Action is also a Required Action, Tenant may take the Necessary Action if Landlord does not commence the Necessary Action prior to the end of the business day which is two (2) business days following the day of Landlord's receipt of the Emergency Notice (the "**Emergency Cure Period**") and thereafter use its commercially reasonable efforts and due diligence to complete the Necessary Action as soon as reasonably practicable. If Tenant takes any Necessary Action hereunder, Tenant shall use only those contractors used by Landlord in the Project for such work unless such contractors are unwilling or unable to perform such work, in which event Tenant may utilize the services of any other qualified contractor which normally and regularly performs similar work in comparable buildings.

(c) Tenant's Obligations. Except as expressly provided as Landlord's obligation in this Article 9, Tenant shall keep all portions of the Premises in good condition and repair, excluding only those portions that are Landlord's express obligation to maintain as provided above. Tenant's obligations include, without limitation, maintenance and repair of the compressed air system and nitrogen tank located in or solely benefitting the Premises (regardless of whether such systems are located entirely in the Premises), lighting within the Premises, any HVAC System that exclusively services the Premises (as described in Section 9(a) above), plumbing systems within the Premises, exhaust systems within the Premises and the electrical system within the Premises. In addition, Tenant's responsibility shall also include, with respect to the Premises, all repairs in ducts, conduits, pipes and wiring. Tenant shall give Landlord prompt written notice of any leaks or water damage that becomes known to Tenant. If any repairs required to be made by Tenant hereunder are not commenced within ten (10) days after written notice delivered to Tenant by Landlord (or less than ten (10) days, in the case of an emergency situation which by its nature requires an immediate response or a response within fewer than ten (10) days), or if Tenant timely commences such repairs but fails to diligently prosecute such repairs to completion, Landlord may, upon notice to Tenant and at Landlord's option, make such repairs without liability to Tenant for any loss or damage which may result by reason of such repairs. In such event, Tenant shall reimburse Landlord's costs therefor as Additional Rent within thirty (30) days of Landlord's written demand. Tenant shall have access to the roof of the Project and other areas of the Project required in order for Tenant to repair and maintain any systems that exclusively service the Premises (as required by Section 9(a) above) and to otherwise comply with Tenant's repair and maintenance obligations under this Lease. All damage or injury to the Premises or the Project resulting from the act or negligence of Tenant, its employees, agents or visitors, guests, invitees or licensees or by the use of the Premises, shall be promptly repaired by Tenant at its sole cost and expense (except to the extent covered by insurance).

(d) Alterations. Tenant shall make no alterations, installations, changes or additions in or to the Premises or the Project (collectively, "**Alterations**") without Landlord's prior written consent, which shall not be unreasonably withheld, conditioned or delayed; provided, however, (i) Landlord hereby consents to those Alterations listed on Exhibit "E" attached hereto and made a part hereof (so long as such Alterations are otherwise completed in accordance with the requirements set forth in this Lease), and (ii) Landlord's prior written consent shall not be required for Tenant's interior painting, and for any non-structural installation of fixtures, equipment, interior floors and floor coverings in the Premises, all of which may otherwise be completed in accordance with this Lease. Any Alterations approved by Landlord must be performed in accordance with the terms hereof, using only contractors reasonably approved by Landlord in writing and upon the reasonable approval by Landlord in writing of plans and specifications pertaining to the Alterations in question, to be prepared and submitted by Tenant at its sole cost and expense. Landlord shall grant or deny consent to a proposed Alteration within ten (10) business days after Landlord's receipt of plans and specifications therefor. If Landlord fails to so respond in writing to Tenant within said ten (10) business day period, Tenant may send a second written notice ("**Alteration Notice**") to Landlord indicating that such Alteration Notice is being delivered by Tenant pursuant to this Section 9(d). Landlord's failure to withhold its consent by written notice to Tenant within five (5) business days after Landlord's receipt of a properly delivered Alteration Notice shall be deemed to constitute Landlord's consent to such Alteration. Tenant shall at its sole cost and expense obtain all necessary approvals and permits pertaining to any Alterations approved by Landlord. Tenant shall cause all Alterations to be performed in a good and workmanlike manner, in conformance with all applicable Laws and pursuant to a valid building permit. Landlord shall not be entitled to a construction management fee or review fee in connection with any Alterations. Notwithstanding anything to the contrary contained herein, Tenant may also make minor alterations to the Premises (the "**Minor Alterations**"), without Landlord's consent, provided that the cost of any such Minor Alteration does not exceed \$75,000 in any one instance and more than \$200,000 in the aggregate during the Term; and provided further that such Minor Alteration does not (i) require any structural modifications to the Premises, (ii) require any changes to, nor adversely affect, the Project Systems, and (iii) affect the exterior appearance of the Project. Notwithstanding the rights accorded to Tenant pursuant to the immediately preceding sentences, Tenant acknowledges and agrees that Landlord's permission for Tenant to commence construction or Landlord's monitoring of such work shall in no way constitute any representation or warranty by Landlord as to the adequacy or sufficiency of such plans and specifications, the improvements to which they relate, the capabilities of such contractors or the compliance of any such work with any applicable Laws; instead, any such permission or monitoring shall merely be the consent of Landlord as required hereunder.

(e) Insurance. Prior to the commencement of any Alterations, Tenant shall provide Landlord with evidence that Tenant or Tenant's contractor carries insurance for workers' compensation, "Builder's All Risk" insurance in an amount approved by Landlord covering the construction of such Alterations, and such other insurance as Landlord may reasonably require, it being understood that all such Alterations shall be insured by Tenant pursuant to Article 14 of this Lease immediately upon completion thereof.

(f) Costs and Fees; Removal. If permitted Alterations are made, they shall be made at Tenant's sole cost and expense and shall be and become the property of Landlord, except that Landlord may, by written notice to Tenant given at the time of Landlord's consent to an Alteration (or if Landlord's consent is not required, then Landlord's notice shall be provided within thirty (30) days after Landlord receives written notice of the Alteration), require Tenant at Tenant's expense to remove such Alteration from the Premises upon expiration or earlier termination of this Lease, and to repair any damage to the Premises and the Project caused by such removal.

(g) Quality of Construction Work by Tenant. All construction work done by Tenant within the Premises shall be performed in a good and workmanlike manner, lien-free and in compliance with all Laws, and in such manner as to reasonably minimize interference with other construction in progress and with the transaction of business in the Project. Without limiting the generality of the foregoing, Landlord shall have the right to require that such work be performed in accordance with non-discriminatory rules and regulations which Landlord may from time to time reasonably prescribe by prior written notice to Tenant.

(h) Renovation by Landlord. In the event that Landlord elects to renovate all or any portion of the Project, including, without limitation, performing the Demising Work, subject to Article 12 below, Tenant will reasonably cooperate with such renovations, including Tenant's tolerating temporary and reasonable inconveniences (which will be minimized by Landlord to the extent practicable and may include, without limitation, the temporary removal of Tenant's signs) in order to facilitate such renovations, as they may relate to the exterior of the Premises.

ARTICLE 10
LIENS

Tenant shall keep the Premises and the Project free from any mechanics' liens, vendors liens or any other liens arising out of any work performed, materials furnished or obligations incurred by Tenant, and Tenant agrees to defend, indemnify and hold Landlord harmless from and against any such lien or claim or action thereon, together with costs of suit and reasonable attorneys' fees and costs incurred by Landlord in connection with any such claim or action. Before commencing any work of alteration, addition or improvement to the Premises, Tenant shall give Landlord at least ten (10) business days' written notice of the proposed commencement of such work (to afford Landlord an opportunity to post appropriate notices of non-responsibility). In the event that there shall be recorded against the Premises or the Project or the property of which the Premises is a part any claim or lien arising out of any such work performed, materials furnished or obligations incurred by Tenant and such claim or lien shall not be removed by bond or otherwise or discharged within ten (10) days of filing, upon notice to Tenant and the expiration of a fifteen (15) day cure period, Landlord shall have the right but not the obligation to pay and discharge said lien without regard to whether such lien shall be lawful or correct (in which case Tenant shall reimburse Landlord for any such payment made by Landlord within ten (10) days following written demand). Upon completion of the work, Tenant shall deliver to Landlord final lien waivers from all contractors and suppliers. Landlord may post at the Premises such notices of non-responsibility as may be provided for under applicable Law. Tenant shall provide Landlord with as-built plans and specifications for all Alterations done by Tenant.

ARTICLE 11
PROJECT SERVICES

(a) Utilities and Services. Landlord and Tenant acknowledge that, concurrently with their execution and delivery of this Lease, Landlord and Tenant are entering into a Lease for the remainder of the Project consisting of approximately 192,629 rentable square feet (the "**Short Term Lease**"). Tenant acknowledges and agrees that the shared electrical room for the Project requires expansion, and Tenant agrees that it will cooperate with Landlord to have such expansion occur into Tenant's storage room. Upon the completion of the expansion, the added space shall be included in the Shared Space. Landlord and Tenant further acknowledge and agree that the telephone room shall be located solely in Tenant's Premises and may be used exclusively by Tenant and not any other occupant. In accordance with the timeframes set forth in Section 8(b) above, Landlord shall, at Landlord's sole cost, (i) separate the Project Systems (excluding fire system branch lines, fire life safety systems and common HVAC elements) serving the Premises from the remainder of the Project, and (ii) have separate meters or submeters installed for each of the following utilities: electricity, water and natural gas. Notwithstanding the foregoing or anything to the contrary herein, Landlord shall have the right, as determined in Landlord's sole discretion and at Landlord's sole cost, to either (A) separate the Project's condensed water loop and dedicate the existing cooling towers in the Project to service the Premises exclusively, or (B) maintain the condensed water loop and cooling tower as a Common Area in accordance with the terms of this Lease, in which event, Landlord shall install, at Landlord's sole cost, a new Siemens Talon Controls Building Management System (or comparable system) (the "**BMS System**") with controllers at each water source heat pump. Tenant shall cooperate with Landlord and Landlord's contractor to allow the timely completion of the foregoing work. If Landlord elects to maintain the condensed water loop and cooling towers as Common Area, Landlord shall utilize the BMS System to monitor and record the water heat source pump fan and compressor operation times to establish the costs attributable to each party utilizing same. Any utility costs attributable to Tenant as determined by Landlord's review of the BMS System shall be paid by Tenant to Landlord as Additional Rent within fifteen (15) days of Landlord's demand. Tenant shall have the right to connect additional equipment to the BMS System at Tenant's sole cost, so long as such additional equipment is reasonably approved by Landlord, complies with all applicable laws, does not overload the BMS System and otherwise complies with all of the requirements set forth in this Lease. Any meters and sub-meters shall be installed for each such utility in order to measure amounts supplied to the Premises, other space in the Project and the Common Areas (and the costs measured from such meters and sub-meters shall be solely paid by the parties utilizing such systems as further described in this Section 11(a) below). After such separate meters are installed, Tenant shall contract directly with the applicable utility company for utilities separately metered to the Premises, Tenant shall have no responsibility for utilities provided to other space in the Project and utilities provided to the Common Areas of the Project shall be included in Operating Costs. Landlord shall bill Tenant for Tenant's usage (as determined by Landlord's review of the sub-meter readings) for any utilities that are sub-metered, and Tenant shall reimburse Landlord for such actual costs (without mark-up from Landlord) as Additional Rent within fifteen (15) days of demand. Until such separate meters and submeters are installed, Tenant shall pay Tenant's Proportionate Share of the cost of such utilities on a monthly basis. Landlord shall provide, as an Operating Cost of the Project, trash removal services and janitorial service to the Common Areas (but not to the Premises). Tenant shall be responsible, at Tenant's sole cost, for janitorial services to the Premises. Landlord shall not be liable for, and except as provided in Section 11(b) below, there shall be no rent abatement as a result of, any stoppage, reduction or interruption of any such services caused by governmental rules, regulations or ordinances, riot, strike, labor disputes, breakdowns, accidents or necessary repairs.

(b) **Abatement Event.** An "**Abatement Event**" shall be defined as an event caused by Landlord's negligence or willful misconduct that prevents Tenant from using the Premises or any portion thereof, as a result of any failure to provide essential services (i.e., utilities under Section 11(a) above) or access to the Premises, where (i) Tenant does not actually use the Premises or such portion thereof in the manner in which it was used prior to the Abatement Event, and (ii) such event is not caused by the negligence or willful misconduct of Tenant, its agents, employees or contractors. Tenant shall give Landlord notice ("**Abatement Notice**") of any such Abatement Event, and if such Abatement Event continues beyond the "Eligibility Period" (as that term is defined below), then, as Tenant's sole and exclusive remedy at law and in equity (other than in the case of Landlord's default, in which case Section 19(b) below shall apply) the Basic Rental and Tenant's Proportionate Share of Direct Costs shall be abated entirely or reduced, as the case may be, after expiration of the Eligibility Period for such time that Tenant continues to be so prevented from using, and does not use, the Premises or a portion thereof, in the proportion that the rentable area of the portion of the Premises that Tenant is prevented from using, and does not use, bears to the total rentable area of the Premises; provided, however, in the event that Tenant is prevented from using, and does not use, a portion of the Premises for a period of time in excess of the Eligibility Period and the remaining portion of the Premises is not sufficient to allow Tenant to effectively conduct its business therein, and if Tenant does not conduct its business from such remaining portion, then for such time after expiration of the Eligibility Period during which Tenant is so prevented from effectively conducting its business therein, the Basic Rental and Tenant's Proportionate Share of Direct Costs for the entire Premises shall be abated entirely for such time as Tenant continues to be so prevented from using, and does not use, the Premises. If, however, Tenant reoccupies any portion of the Premises during such period, the Basic Rental and Tenant's Proportionate Share of Direct Costs allocable to such reoccupied portion, based on the proportion that the rentable area of such reoccupied portion of the Premises bears to the total rentable area of the Premises, shall be payable by Tenant from the date Tenant reoccupies such portion of the Premises. The term "**Eligibility Period**" shall mean a period of five (5) consecutive business days after Landlord's receipt of any Abatement Notice(s). If a fire or other casualty results in Tenant's inability to use the Premises or a portion thereof, the terms and conditions of Article 16 below shall apply rather than this Section 11(b).

ARTICLE 12
ENTRY RIGHTS OF LANDLORD

Landlord and its agents shall have the right to enter the Premises at all reasonable times upon one (1) business day's prior notice (except that no notice shall be required in the case of an emergency) for the purpose of examining or inspecting the same, serving or posting and keeping posted thereon notices as provided by law, or which Landlord deems necessary for the protection of Landlord or the Project, showing the same to prospective tenants (but as to prospective tenants, only during the last nine (9) months of the Term or the Option Terms, if applicable, or at any time in which Tenant is in default under this Lease after expiration of applicable cure periods), lenders or purchasers of the Project, in the case of an emergency, and for making such alterations, repairs, improvements or additions to the Premises or to the Project as may be required under this Lease, all without being deemed guilty of or liable for any breach of any covenant of quiet enjoyment or eviction of Tenant (provided Landlord uses reasonable efforts to present any disruption to Tenant's business operations) and without abatement of rent. For each of the foregoing purposes, Tenant shall provide Landlord with a key or other device in order to provide entry to the Premises (excluding Tenant's vaults and safes), and Landlord may open said doors to the Premises in an emergency in order to obtain entry to the Premises. Landlord shall provide Tenant with an opportunity to have a representative of Tenant escort Landlord in connection with any such entry (except any such entry in the case of an emergency). Furthermore, except as expressly provided in this Lease, Landlord shall not be entitled to make alterations, additions or improvements to the Premises or to the exterior façade surrounding the Premises without Tenant's consent.

ARTICLE 13
INDEMNITY; EXEMPTION OF LANDLORD FROM LIABILITY

(a) Indemnity. Tenant shall indemnify, defend and hold Landlord and its members, officers, directors, employees and contractors (collectively, "**Landlord Parties**") harmless from any and all claims arising from Tenant's breach of this Lease and/or Tenant's use of the Premises or the Project or from the conduct of its business or from any activity, work or thing which may be permitted or suffered by Tenant in the Premises and shall further indemnify, defend and hold Landlord and the Landlord Parties harmless from and against any and all loss, cost, expense, damages or claims arising from the negligence or willful misconduct of Tenant or any of its agents, contractors or employees and from any and all costs, attorneys' fees and costs, expenses and liabilities incurred in the defense of any claim or any action or proceeding brought thereon, including negotiations in connection therewith. However, notwithstanding the foregoing, Tenant shall not be required to indemnify and/or hold Landlord or the Landlord Parties harmless from any loss, cost, liability, damage or expense, including, but not limited to, penalties, fines, attorneys' fees or costs (collectively, "**Claims**"), to any person, property or entity to the extent resulting from the negligence or willful misconduct of Landlord or its agents, contractors, or employees. Landlord hereby indemnifies Tenant and holds Tenant harmless from any Claims to the extent resulting from the negligence or willful misconduct of Landlord or its agents, contractors or employees and/or for Landlord's breach of the Lease, and not covered by insurance required to be carried under this Lease by Tenant or actually carried by Tenant. Further, Tenant's agreement to indemnify Landlord and Landlord's agreement to indemnify Tenant pursuant to this Section 13(a) is not intended to and shall not relieve any insurance carrier of its obligations under policies required to be carried by Landlord or Tenant pursuant to this Lease, to the extent such policies cover the matters subject to such indemnification obligations.

(b) Exemption of Landlord from Liability. Landlord and the Landlord Parties shall not be liable for injury to Tenant's business, or loss of income therefrom, however occurring (including, without limitation, from any failure or interruption of services or utilities or as a result of Landlord's negligence), or, except in connection with damage or injury resulting from the negligence or willful misconduct of Landlord or the Landlord Parties (provided that in such case Landlord's liability shall be limited to amounts not covered by insurance carried by Tenant or required to be carried by Tenant pursuant to this Lease), for damage that may be sustained by the person, goods, wares, merchandise or property of Tenant, its employees, invitees, customers, agents, or contractors.

ARTICLE 14
INSURANCE

(a) **Tenant's Insurance.** Tenant, shall at all times during the Term of this Lease, and at its own cost and expense, procure and continue in force the following insurance coverage: (i) Commercial General Liability Insurance (which may include umbrella insurance) insuring both Landlord and Tenant against all claims, demands or actions for bodily injury, property damage, personal and advertising injury, and medical payments arising out of or in connection with Tenant's use or occupancy of the Premises, or by the condition of the Premises, written on an occurrence basis, with a combined single limit for bodily injury and property damages of not less than Two Million Dollars (\$2,000,000) per occurrence and Three Million Dollars (\$3,000,000) in the annual aggregate (and no offset for occurrences on property other than the Premises), including products liability coverage if applicable, owners and contractors protective coverage (when Tenant performs Alterations), blanket contractual coverage, and personal injury coverage; (ii) a policy of standard fire, extended coverage and special extended coverage insurance (all risks), including a vandalism and malicious mischief endorsement, sprinkler leakage coverage where sprinklers are provided in an amount equal to the full replacement value new without deduction for depreciation of all (A) Tenant Improvements and Alterations, and (B) trade fixtures, furniture, equipment and other personal property installed by or at the expense of Tenant; and (iii) Worker's Compensation and Employers liability coverage as required by Law. Tenant shall carry and maintain during the entire Term (including any Option Terms, if applicable), at Tenant's sole cost and expense, increased amounts of the insurance required to be carried by Tenant pursuant to this Article 14 and such other reasonable types of insurance coverage and in such reasonable amounts covering the Premises and Tenant's operations therein, as may be reasonably required by Landlord, but Landlord shall only be entitled to require such increased amounts and/or other coverages if they are then generally required by owners of comparable buildings in the San Diego County, California area.

(b) **Form of Policies.** The aforementioned minimum limits of policies and Tenant's procurement and maintenance thereof shall in no event limit the liability of Tenant hereunder. The Commercial General Liability Insurance policy shall name Landlord, Landlord's property manager, if any, Landlord's lender(s) and such other persons or firms as Landlord specifies in writing to Tenant from time to time, as additional insureds. All such insurance policies carried by Tenant shall be with companies having a rating of not less than A-VII in Best's Insurance Guide. Tenant shall furnish to Landlord certificates of coverage. Tenant shall, prior to the expiration of such policies, furnish Landlord with renewals or binders. Tenant agrees that if Tenant does not take out and maintain such insurance or furnish Landlord with renewals or binders in a timely manner, upon notice to Tenant and expiration of a reasonable cure period, Landlord may (but shall not be required to) procure said insurance on Tenant's behalf and charge Tenant the cost thereof, which amount shall be payable by Tenant upon demand with interest (at the Interest Rate set forth in Section 20(e) below) from the date such sums are expended. Tenant shall have the right to provide such insurance coverage pursuant to blanket or umbrella policies obtained by Tenant, provided such blanket or umbrella policies afford coverage to the Premises and to Tenant as required by this Lease.

(c) Landlord's Insurance. Landlord shall, as a cost to be included in Operating Costs, procure and maintain at all times during the Term of this Lease, a policy or policies of insurance covering loss or damage to the Project in the amount of the full replacement cost without deduction for depreciation thereof, providing protection against all perils included within the classification of fire and extended coverage, vandalism coverage and malicious mischief, sprinkler leakage, water damage, and special extended coverage on the building. Additionally, Landlord may carry: (i) Bodily Injury and Property Damage Liability Insurance and/or Excess Liability Coverage Insurance; and (ii) Earthquake and/or Flood Damage Insurance; and (iii) Rental Income Insurance; and (iv) any other forms of insurance Landlord may deem appropriate or any lender may require. The costs of all insurance carried by Landlord shall be included in Operating Costs.

(d) Waiver of Subrogation. Landlord and Tenant each agree to require their respective insurers issuing the insurance described in Sections 14(a)(ii) and the first sentence of Section 14(c), to waive any rights of subrogation that such companies may have against the other party. Tenant hereby waives any right that Tenant may have against Landlord and Landlord hereby waives any right that Landlord may have against Tenant as a result of any loss or damage to the extent such loss or damage is insurable under such policies and such waiver shall also apply to deductible and self-insured retention amounts.

ARTICLE 15
ASSIGNMENT AND SUBLETTING

Except as expressly provided in this Article 15, Tenant shall have no power to, either voluntarily, involuntarily, by operation of law or otherwise, sell, assign, mortgage, pledge, transfer or hypothecate this Lease, or sublet the Premises or any part thereof, without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Landlord shall grant or deny consent to a proposed Transfer by written notice to Tenant within ten (10) business days after Landlord's receipt of an executed duplicate original of the proposed Transfer document together with financial information reasonably requested by Landlord. If Landlord fails to so respond in writing to Tenant within said ten (10) business day period, Tenant may send a second written notice ("**Deemed Response Notice**") to Landlord with such information and indicating that such Deemed Response Notice is being delivered pursuant to Article 15 of this Lease. Landlord's failure to withhold its consent by written notice to Tenant within five (5) business days after Landlord's receipt of a properly delivered Deemed Response Notice shall be deemed to constitute Landlord's consent to such Transfer. Tenant may transfer its interest pursuant to this Lease only upon the following express conditions, which conditions are agreed by Landlord and Tenant to be reasonable:

(a) That the proposed Transferee (as hereafter defined) shall be subject to the prior written consent of Landlord, which consent will not be unreasonably withheld.

(b) That Tenant shall pay to Landlord Landlord's reasonable attorneys' fees and costs incurred in connection with the proposed Transfer, not to exceed a total of \$1,500.00 per proposed Transfer.

(c) That the proposed Transferee shall execute an agreement pursuant to which it shall agree to perform faithfully and be bound by all of the terms, covenants, conditions, provisions and agreements of this Lease applicable to that portion of the Premises so transferred.

(d) That an executed duplicate original of said assignment and assumption agreement or other Transfer on a form reasonably approved by Landlord, shall be delivered to Landlord within five (5) days after the execution thereof, and that such Transfer shall not be binding upon Landlord until the delivery thereof to Landlord and the execution and delivery of Landlord's consent thereto. It shall be a condition to Landlord's consent to any subleasing, assignment or other transfer of part or all of Tenant's interest in the Premises ("**Transfer**") that (i) upon Landlord's consent to any Transfer, Tenant shall pay and continue to pay Landlord fifty percent (50%) of any "Transfer Premium" (defined below), received by Tenant from the Transferee; (ii) any sublessee of part or all of Tenant's interest in the Premises shall agree that in the event Landlord gives such sublessee notice that Tenant is in default under this Lease, such sublessee shall thereafter make all sublease or other payments directly to Landlord, which will be received by Landlord without any liability whether to honor the sublease or otherwise (except to credit such payments against sums due under this Lease), and any sublessee shall agree to attorn to Landlord or its successors and assigns at their request should this Lease be terminated for any reason, except that in no event shall Landlord or its successors or assigns be obligated to accept such attornment; (iii) Landlord may require that Tenant not then be in default hereunder after expiration of any applicable cure period; and (iv) Tenant or the proposed subtenant or assignee (collectively, "**Transferee**") shall agree to pay Landlord, upon demand, as Additional Rent, a sum equal to the additional costs, if any, incurred by Landlord for maintenance and repair as a result of any change in the nature of occupancy caused by such subletting or assignment. "**Transfer Premium**" shall mean all rent, Additional Rent or other consideration payable by a Transferee in connection with a Transfer in excess of the Basic Rental and Direct Costs payable by Tenant under this Lease during the term of the Transfer and if such Transfer is for less than all of the Premises, the Transfer Premium shall be calculated on a rentable square foot basis. In any event, the Transfer Premium shall be calculated after deducting the reasonable expenses incurred by Tenant for (1) any changes, alterations and improvements to the Premises paid for by Tenant in connection with the Transfer, (2) any other out-of-pocket monetary concessions provided by Tenant to the Transferee, and (3) any brokerage commissions and attorneys' fees paid for by Tenant in connection with the Transfer. In no event shall the consent by Landlord to any Transfer be construed as relieving Tenant or any Transferee from obtaining the express written consent of Landlord to any further Transfer, or as releasing Tenant from any liability or obligation hereunder whether or not then accrued and Tenant shall continue to be fully liable therefor. No collection or acceptance of rent by Landlord from any person other than Tenant shall be deemed a waiver of any provision of this Article 15 or the acceptance of any Transferee hereunder, or a release of Tenant (or of any Transferee of Tenant).

The term "**Affiliate**" shall mean (i) any entity that is controlled by, controls or is under common control with, Tenant or (ii) any entity that merges with, is acquired by, or acquires Tenant through the purchase of stock or assets so long as the resulting entity has the same or greater net worth than that of Tenant as of the date of the Transfer. Notwithstanding anything to the contrary contained in this Article 15, an assignment or subletting of all or a portion of the Premises to an Affiliate of Tenant, shall not be deemed a Transfer under this Article 15 (and shall not require Landlord's consent nor result in an obligation to share Transfer Premium), provided that Tenant notifies Landlord of any such assignment or sublease and promptly supplies Landlord with any documents or information requested by Landlord regarding such assignment or sublease or such Affiliate, and further provided that such assignment or sublease is not a subterfuge by Tenant to avoid its obligations under this Lease. An assignee of Tenant's entire interest in this Lease pursuant to the immediately preceding sentence may be referred to herein as an "**Affiliated Assignee**." "**Control**," as used in this Article 15, shall mean the ownership, directly or indirectly, of greater than fifty percent (50%) of the voting securities of, or possession of the right to vote, in the ordinary direction of its affairs, of greater than fifty percent (50%) of the voting interest in, an entity.

Notwithstanding anything contained herein to the contrary and without limiting the generality of the foregoing provisions of this Article 15, Tenant shall not: (a) sublet all or part of the Premises or assign this Lease on any basis such that the rental or other amounts to be paid by the subtenant or assignee thereunder would be based, in whole or in part, on the income or profits derived by the business activities of the subtenant or assignee; (b) sublet all or part of the Premises or assign this Lease to any person or entity in which, under Section 856(d)(2)(B) of the Internal Revenue Code (the "**Code**"), the Company (defined in Section 30(s) below) or any affiliate of the Company owns, directly or indirectly (by applying constructive ownership rules set forth in Section 856(d) (5) of the Code), a ten percent (10%) or greater interest (it being agreed that Tenant may request Landlord to confirm that an assignee or sublessee will not violate such provision); or (c) sublet all or part of the Premises or assign this Lease in any other manner or otherwise derive any income which could cause any portion of the amounts received by Landlord pursuant hereto or any sublease to fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or which could cause any other income received by Landlord to fail to qualify as income described in Section 856(c) (2) of the Code (provided that any Transfer Premium paid shall not constitute a violation of this provision and Tenant may request Landlord to confirm that there is no violation of this provision). The requirements of this Article 15 shall likewise apply to any further subleasing by any subtenant. All references herein to Section 856 of the Code (or any subsection thereof) also shall refer to any amendments thereof or successor provisions thereto.

ARTICLE 16
DAMAGE OR DESTRUCTION

Tenant shall give immediate written notice to Landlord upon Tenant's knowledge of any damage caused to the Premises by fire or other casualty. If the Project is damaged by fire or other insured casualty and the insurance proceeds have been made available therefor by the holder or holders of any mortgages or deeds of trust covering the Project (as further addressed in Article 17 below) and Landlord does not elect to terminate this Lease as hereinafter provided, the damage shall be repaired by Landlord provided such repairs can, as reflected in the Damage Repair Estimate (as defined below), be completed within two hundred seventy (270) days after the necessity for repairs as a result of such damage becomes known to Landlord and until such repairs are completed Basic Rental and Additional Rent shall be abated in proportion to the part of the Premises which is unusable by Tenant in the conduct of its business (but there shall be no abatement of rent by reason of any portion of the Premises being unusable for a period equal to one (1) day or less). Within sixty (60) days after the date Landlord learns of the necessity for repairs as a result of damage, Landlord shall notify Tenant (the "**Damage Repair Estimate**") of Landlord's reasonable estimate of the period of time in which the repairs will be completed, based upon an estimate from a contractor experienced in comparable repairs. Upon the occurrence of any damage to the Premises, Tenant shall assign to Landlord (or to any party designated by Landlord) all insurance proceeds payable to Tenant under Section 14(a)(ii)(A) above. If repairs cannot, as reflected in the Damage Repair Estimate, be completed within two hundred seventy (270) days after the necessity for repairs as a result of such damage becomes known to Landlord without the payment of overtime or other premiums, Landlord may, at its option, either (i) make such repairs in a reasonable time and in such event this Lease shall continue in effect and the Basic Rental and Additional Rent shall be abated, if at all, in the manner provided in this Article 16, or (ii) elect not to effect such repairs and instead terminate this Lease, by notifying Tenant in writing of such termination within sixty (60) days after Landlord learns of the necessity for repairs as a result of damage, such notice to include a termination date giving Tenant sixty (60) days to vacate the Premises. However, if the Damage Repair Estimate indicates that repairs cannot be completed within two hundred seventy (270) days after being commenced, Tenant may elect, not later than thirty (30) days after Tenant's receipt of the Damage Repair Estimate, to terminate this Lease by written notice to Landlord effective as of the date specified in Tenant's notice. In addition, Landlord may elect to terminate this Lease if the Project shall be damaged by fire or other casualty or cause, whether or not the Premises are affected, if the damage is material and is not fully covered, except for deductible amounts, by Landlord's insurance policies, unless Tenant agrees to fund the insurance shortfall. Finally, if the Premises or the Project is damaged to any substantial extent during the last twelve (12) months of the Term, then notwithstanding anything contained in this Article 16 to the contrary, Landlord and Tenant shall each have the option to terminate this Lease by giving written notice to the other party of the exercise of such option within sixty (60) days after such party learns of the necessity for repairs as the result of such damage; provided, however, that Tenant may nullify any such termination by Landlord if Tenant properly exercises an available extension Option under Article 31 below (but otherwise subject to the provisions set forth above). Except as provided in this Article 16, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business or property arising from such damage or destruction or the making of any repairs, alterations or improvements in or to any portion of the Project or the Premises or in or to fixtures, appurtenances and equipment therein. Tenant understands that Landlord will not carry insurance of any kind on Tenant's furniture, furnishings, trade fixtures or equipment, and that Landlord shall not be obligated to repair any damage thereto or replace the same. With respect to any damage which Landlord is obligated to repair or elects to repair, Tenant, as a material inducement to Landlord entering into this Lease, irrevocably waives and releases its rights under the provisions of Sections 1932 and 1933 of the California Civil Code, except as expressly provided in this Article 16 above.

ARTICLE 17
SUBORDINATION

This Lease is subject and subordinate to all mortgages and deeds of trust which affect the Real Property, including all renewals, modifications, consolidations, replacements and extensions thereof. Tenant agrees that any mortgagee or ground lessor shall have no duty, liability or obligation to perform any of the obligations of Landlord under this Lease and shall have the right at any time to subordinate its mortgage, deed of trust, ground lease or other lien to this Lease; provided, however, notwithstanding that this Lease may be (or may become) superior to a mortgage, deed of trust, ground lease or other lien, the mortgagee shall not be liable for prepaid rentals, security deposits (unless delivered to such mortgagee, deed of trust beneficiary or ground lessor) and claims accruing during Landlord's ownership (unless the circumstances giving rise to such claims continue after such entity succeeds to Landlord's interest); and further provided that the provisions of a mortgage, deed of trust, ground lease or other lien relative to the rights of the mortgagee with respect to proceeds arising from an eminent domain taking (including a voluntary conveyance by Landlord) and provisions relative to proceeds arising from insurance payable by reason of damage to or destruction of the Premises shall be prior and superior to any contrary provisions contained in this Lease with respect to the payment or usage thereof (but if such proceeds are not allocated for repairs as otherwise provided in this Lease, and Landlord does not otherwise fund the cost of such repairs, Tenant may terminate this Lease). Landlord is hereby irrevocably vested with full power and authority to subordinate this Lease to any mortgage, deed of trust, ground lease or other lien hereafter placed upon the Premises; provided, however, that (i) within ten (10) business days' written request of Landlord to Tenant, Tenant agrees to promptly execute, acknowledge and deliver any and all commercially reasonable documents or instruments which Landlord or such holder or holders deem necessary or desirable for purposes thereof; and (ii) a condition precedent to such subordination shall be that Landlord obtains from the lender or other party in question a commercially reasonable non-disturbance agreement in favor of Tenant. Subject to the foregoing, (a) Landlord shall have the right to cause this Lease to be and become and remain subject and subordinate to any and all mortgages or deeds of trust which may hereafter be executed covering the Premises, the Project or the property or any renewals, modifications, consolidations, replacements or extensions thereof, for the full amount of all advances made or to be made thereunder and without regard to the time or character of such advances, together with interest thereon and subject to all the terms and provisions thereof and (b) Tenant agrees, within ten (10) business days after Landlord's written request therefor, to execute, acknowledge and deliver upon request any and all commercially reasonable documents or instruments requested by Landlord or necessary or proper to assure the subordination of this Lease to any such mortgages, deed of trust, or leasehold estates. Tenant agrees that in the event any proceedings are brought for the foreclosure of any mortgage or deed of trust or any deed in lieu thereof, to attorn to the purchaser or any successors thereto upon any such foreclosure sale or deed in lieu thereof as so requested to do so by such purchaser and to recognize such purchaser as the lessor under this Lease; Tenant shall, within ten (10) business days after request execute such further instruments or assurances as such purchaser may reasonably deem necessary to evidence or confirm such attornment. Tenant agrees to provide copies of any notices of Landlord's default under this Lease to any mortgagee or deed of trust beneficiary whose address has been provided to Tenant. Tenant waives the provisions of any current or future statute, rule or law which may give or purport to give Tenant any right or election to terminate or otherwise adversely affect this Lease and the obligations of the Tenant hereunder in the event of any foreclosure proceeding or sale. Concurrently with their execution and delivery this Lease, Landlord, Tenant and any lender under a mortgage or deed of trust which may affect the Real Property as of the Commencement Date shall execute and deliver a subordination, non-disturbance and attornment agreement as a condition to the subordination of this Lease to any such mortgage or deed of trust.

ARTICLE 18
EMINENT DOMAIN

If the whole of the Premises or the Project or so much thereof as to render the balance unusable by Tenant shall be taken under power of eminent domain, or is sold, transferred or conveyed in lieu thereof, this Lease shall automatically terminate as of the date possession is taken by the condemning authority. No award for any partial or entire taking shall be apportioned, and Tenant hereby assigns to Landlord any award which may be made in such taking or condemnation, together with any and all rights of Tenant now or hereafter arising in or to the same or any part thereof; provided, however, that nothing contained herein shall be deemed to give Landlord any interest in or to require Tenant to assign to Landlord any award made to Tenant for the taking of personal property and trade fixtures belonging to Tenant and removable by Tenant at the expiration of the Term hereof as provided hereunder or for the interruption of, or damage to, Tenant's business or for Tenant's moving costs (as long as such separate award does not reduce the amount of the award that would otherwise be awarded to Landlord). In the event of a partial taking described in this Article 18, or a sale, transfer or conveyance in lieu thereof, which does not result in a termination of this Lease, the rent shall be apportioned according to the ratio that the part of the Premises remaining useable by Tenant bears to the total area of the Premises. Tenant hereby waives any and all rights it might otherwise have pursuant to Section 1265.130 of the California Code of Civil Procedure.

ARTICLE 19
DEFAULT

(a) **Tenant's Default**. Each of the following acts or omissions of Tenant shall constitute an "**Event of Default**":

(i) Failure or refusal to pay Basic Rental, Additional Rent or any other amount to be paid by Tenant to Landlord hereunder within five (5) days after notice that the same is due or payable hereunder;

(ii) Except as set forth in items (i) above and (iii) and (iv) below, failure to perform or observe any other covenant or condition of this Lease to be performed or observed within thirty (30) days following written notice to Tenant of such failure; provided, however, if the nature of such default is such that the same cannot be reasonably cured within a thirty (30) day period, Tenant shall not be deemed to be in default if Tenant diligently commences such cure within such period and thereafter diligently proceeds to rectify and cure said default for a period not to exceed ninety (90) days. Such thirty (30) day notice shall be in lieu of, and not in addition to, any required under Section 1161 of the California Code of Civil Procedure or any similar or successor law;

(iii) The taking in execution or by similar process or law (other than by eminent domain) of the estate hereby created; or

(iv) The filing by Tenant or any guarantor hereunder in any court pursuant to any statute of a petition in bankruptcy or insolvency or for reorganization or arrangement for the appointment of a receiver of all or a portion of Tenant's property; the filing against Tenant or any guarantor hereunder of any such petition, or the commencement of a proceeding for the appointment of a trustee, receiver or liquidator for Tenant, or for any guarantor hereunder, or of any of the property of either, or a proceeding by any governmental authority for the dissolution or liquidation of Tenant or any guarantor hereunder, if such proceeding shall not be dismissed or trusteeship discontinued within thirty (30) days after commencement of such proceeding or the appointment of such trustee or receiver; or the making by Tenant or any guarantor hereunder of an assignment for the benefit of creditors. Tenant hereby stipulates to the lifting of the automatic stay in effect and relief from such stay for Landlord in the event Tenant files a petition under the United States Bankruptcy laws, for the purpose of Landlord pursuing its rights and remedies against Tenant and/or a guarantor of this Lease.

(b) Landlord's Default. In the event Landlord should default in any of its obligations hereunder, Tenant shall give Landlord written notice specifying such default and Landlord shall thereupon have thirty (30) days (plus an additional reasonable period as may be required in the exercise by Landlord of due diligence) in which to cure any such default provided that if the default is not reasonably capable of being cured in thirty (30) days, Landlord shall be deemed to be in compliance with this Lease if Landlord commences to cure the default within such thirty (30) day period and diligently and continuously prosecutes such cure to completion for a period not to exceed ninety (90) days; provided however, if Landlord's default is of a nature which if not cured immediately, poses an imminent risk of harm to persons or property and/or will have an immediate, material, adverse effect on the conduct of Tenant's business operations at the Premises, Tenant shall have the right to cure such default immediately, with only such prior notice (if any) to Landlord as is reasonable under the circumstances. Furthermore, upon any such default by Landlord under this Lease, Tenant may, except as otherwise specifically provided in this Lease to the contrary, exercise any of its rights provided at law or in equity; provided that in no event may Tenant terminate the Lease without first obtaining a judgment.

ARTICLE 20 **REMEDIES**

(a) Upon the occurrence of an Event of Default under this Lease as provided in Article 19 hereof, Landlord may exercise all of its remedies as may be permitted by law, including but not limited to the remedy provided by Section 1951.4 of the California Civil Code and any successor statute or similar Law, and including without limitation, terminating this Lease, reentering the Premises and removing all persons and property therefrom, which property may be stored by Landlord at a warehouse or elsewhere at the risk, expense and for the account of Tenant. If Landlord elects to terminate this Lease, Landlord shall be entitled to recover from Tenant the aggregate of all amounts permitted by law, including but not limited to (i) the worth at the time of award of the amount of any unpaid rent which had been earned at the time of such termination; plus (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; and (v) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law. The term "rent" as used in this Section 20(a) shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease, whether to Landlord or to others. As used in items (i) and (ii), above, the "worth at the time of award" shall be computed by allowing interest at the rate set forth in item (e), below, but in no case greater than the maximum amount of such interest permitted by law. As used in item (iii), above, the "worth at the time of award" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). Tenant hereby waives for Tenant and all those claiming under Tenant all right now or hereafter existing including, without limitation, any rights under California Code of Civil Procedure Sections 1174 and 1179 and Civil Code Section 1950.7 to redeem by order or judgment of any court or by any legal process or writ, Tenant's right of occupancy of the Premises after any termination of this Lease.

(b) Nothing in this Article 20 shall be deemed to affect Landlord's right to indemnification for liability or liabilities arising prior to the termination of this Lease for personal injuries or property damage under the indemnification clause or clauses contained in this Lease.

(c) Notwithstanding anything to the contrary set forth herein, Landlord's re-entry to perform acts of maintenance or preservation of or in connection with efforts to relet the Premises or any portion thereof, or the appointment of a receiver upon Landlord's initiative to protect Landlord's interest under this Lease shall not terminate Tenant's right to possession of the Premises or any portion thereof and, until Landlord does elect to terminate this Lease, this Lease shall continue in full force and effect and Landlord may enforce all of Landlord's rights and remedies hereunder including, without limitation, the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate this Lease on account of any default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies under this Lease, including the right to recover all rent as it becomes due.

(d) All rights, powers and remedies of Landlord hereunder and under any other agreement now or hereafter in force between Landlord and Tenant shall be cumulative and not alternative and shall be in addition to all rights, powers and remedies given to Landlord by law, and the exercise of one or more rights or remedies shall not impair Landlord's right to exercise any other right or remedy.

(e) Any amount due from one (1) party to another hereunder which is not paid when due shall bear interest at the rate ("**Interest Rate**") equal to the lower of ten percent (10%) per annum or the maximum lawful rate of interest from the due date until paid, unless otherwise specifically provided herein, but the payment of such interest shall not excuse or cure any default by Tenant under this Lease. In addition to such interest, if Basic Rental is not paid on or before the fifth (5th) day of the calendar month for which the same is due, a late charge equal to three percent (3%) of the amount overdue shall be immediately due and owing, which late charge Tenant hereby agrees is a reasonable estimate of the damages Landlord shall suffer as a result of Tenant's late payment. Such charges for interest and late payments are separate and cumulative and are in addition to and shall not diminish or represent a substitute for any or all of Landlord's rights or remedies under any other provision of this Lease. Notwithstanding the foregoing, Tenant shall be entitled to notice and the expiration of a five (5) day cure period prior to an imposition of any late charge or interest charge under this Section 20(e) one (1) time per calendar year; after such written notice has been provided to Tenant in a calendar year, Tenant shall not be entitled to any further notice prior to imposition of a late charge or interest under this Section 20(e) in such calendar year.

(f) Notwithstanding anything to the contrary set forth in this Lease, Landlord shall be in default in the performance of any obligation required to be performed by Landlord pursuant to this Lease if Landlord fails to perform such obligation within thirty (30) days after the receipt of notice from Tenant specifying in detail Landlord's failure to perform; provided, however, if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be in default under this Lease if it shall commence such performance within such thirty (30) day period and thereafter diligently pursue the same to completion. Upon any such default by Landlord under this Lease, Tenant may, except as otherwise specifically provided in this Lease to the contrary, exercise any of its rights provided at law or in equity.

(g) When this Lease requires service of a notice, that notice shall replace rather than supplement any equivalent or similar statutory notice, including any notice required by California Code of Civil Procedure Section 1161 or any similar or successor statute. When a statute requires service of a notice in a particular manner, service of that notice (or a similar notice required by this Lease) in the manner required by this Article 20 shall replace and satisfy the statutory service-of-notice procedures, including those required by California Code of Civil Procedure Section 1162 or any similar or successor statute.

ARTICLE 21
TRANSFER OF LANDLORD'S INTEREST

In the event of any transfer or termination of Landlord's interest in the Premises or the Project by sale, assignment, transfer, foreclosure, deed-in-lieu of foreclosure or otherwise whether voluntary or involuntary, Landlord shall be automatically relieved of any and all obligations and liabilities on the part of Landlord from and after the date of such transfer or termination, including furthermore without limitation, the obligation of Landlord under Article 4 and California Civil Code 1950.7 above to return the security deposit, provided said security deposit is transferred to said transferee. Tenant agrees to attorn to the transferee upon any such transfer and to recognize such transferee as the lessor under this Lease and Tenant shall, within five (5) days after request, execute such further commercially reasonable instruments or assurances as such transferee may reasonably deem necessary to evidence or confirm such attornment.

ARTICLE 22
BROKER

In connection with this Lease, Landlord and Tenant warrant and represent that they have had dealings only with the firm set forth in Article 1.G. of the Basic Lease Provisions and that they know of no other person or entity who is or might be entitled to a commission, finder's fee or other like payment in connection herewith. Each party does hereby indemnify and agree to hold the other and their agents, members, partners, representatives, officers, affiliates, shareholders, employees, successors and assigns harmless from and against any and all loss, liability and expenses that the other may incur should such warranty and representation prove incorrect, inaccurate or false.

ARTICLE 23
PARKING

Tenant shall be entitled to use, commencing on the Commencement Date, the number of parking spaces set forth in Article 1.H. of the Basic Lease Provisions. Those parking spaces designated on Exhibit "D" shall be for the exclusive use of Tenant and may be designated by Tenant as reserved for Tenant and the remaining parking spaces shall be available on an unreserved basis. Tenant shall not be required to pay to Landlord any fee for parking spaces during the initial Term or any applicable Option Term. Tenant shall abide by all reasonable and non-discriminatory rules and regulations which are prescribed from time to time for the orderly operation and use of the parking areas of the Project and Tenant shall cooperate in seeing that Tenant's employees and visitors also comply with such rules and regulations. Subject to Tenant's parking rights hereunder, Landlord specifically reserves the right to change the size, configuration, design, layout and all other aspects of the Project parking facility at any time and Tenant acknowledges and agrees that Landlord may, without incurring any liability to Tenant and without any abatement of rent under this Lease, from time to time, temporarily close-off or restrict access to areas of the Project parking facility for purposes of permitting or facilitating any such construction, alteration or improvements. Landlord may delegate its responsibilities hereunder to a parking operator or a lessee of the parking facility in which case such parking operator or lessee shall have all the rights of control attributed hereby to the Landlord. In the event that parking capacity problems arise for the Project, Landlord shall implement such parking programs as reasonably determined by Landlord to alleviate such capacity problem, which programs may include, without limitation, valet programs, security programs and parking decals (collectively, the "**Parking Programs**"). The cost of such Parking Programs shall be included in Operating Costs; provided that if a parking problem is caused solely by Tenant or any other tenants of the Project as determined by Landlord in its commercially reasonable discretion, then the cost of the particular Parking Program shall be borne solely by the party or parties causing the problem.

ARTICLE 24
WAIVER

No waiver by Landlord or Tenant of any provision of this Lease shall be deemed to be a waiver of any other provision hereof or of any subsequent breach of the same or any other provision. No provision of this Lease may be waived by Landlord or Tenant, except by an instrument in writing executed by the waiving party. Landlord's consent to or approval of any act by Tenant requiring Landlord's consent or approval shall not be deemed to render unnecessary the obtaining of Landlord's consent to or approval of any subsequent act of Tenant, whether or not similar to the act so consented to or approved. No act or thing done by Landlord or Landlord's agents during the Term of this Lease shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept such surrender shall be valid unless in writing and signed by Landlord. The subsequent acceptance of rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent. Any payment by Tenant or receipt by Landlord of an amount less than the total amount then due hereunder shall be deemed to be in partial payment only thereof and not a waiver of the balance due or an accord and satisfaction, notwithstanding any statement or endorsement to the contrary on any check or any other instrument delivered concurrently therewith or in reference thereto. Accordingly, Landlord may accept any such amount and negotiate any such check without prejudice to Landlord's right to recover all balances due and owing and to pursue its other rights against Tenant under this Lease, regardless of whether Landlord makes any notation on such instrument of payment or otherwise notifies Tenant that such acceptance or negotiation is without prejudice to Landlord's rights.

ARTICLE 25
ESTOPPEL CERTIFICATE

Tenant shall, at any time and from time to time, upon not less than fifteen (15) days' prior written notice from Landlord, execute, acknowledge and deliver to Landlord a statement in writing certifying the following information, (but not limited to the following information in the event further information regarding this Lease is requested by Landlord): (i) that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as modified, is in full force and effect); (ii) the dates to which the rental and other charges are paid in advance, if any; (iii) the amount of Tenant's security deposit, if any; and (iv) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, and no events or conditions then in existence which, with the passage of time or notice or both, would constitute a default on the part of Landlord hereunder, or specifying such defaults, events or conditions, if any are claimed. It is expressly understood and agreed that any such statement may be relied upon by any prospective purchaser or encumbrancer of all or any portion of the Real Property.

ARTICLE 26
LIABILITY OF LANDLORD

Notwithstanding anything in this Lease to the contrary, any remedy of Tenant for the collection of a judgment (or other judicial process) requiring the payment of money by Landlord in the event of any default by Landlord hereunder or any claim, cause of action or obligation, contractual, statutory or otherwise by Tenant against Landlord or the Landlord Parties concerning, arising out of or relating to any matter relating to this Lease and all of the covenants and conditions or any obligations, contractual, statutory, or otherwise set forth herein, shall be limited solely and exclusively to an amount which is equal to the sum of (a) the rents, issues and profits of the Project (which shall be deemed to include the net proceeds of any sale of the Project by Landlord, provided that any claim is made by Tenant within one (1) year following the date of any such sale, as well as any insurance or condemnation proceeds not applied to the restoration of the Project and subject to the prior rights of any mortgagee or ground or underlying lessor of Landlord), plus (b) the interest of Landlord in and to the Project. No other property or assets of Landlord or any Landlord Party shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies under or with respect to this Lease, Landlord's obligations to Tenant, whether contractual, statutory or otherwise, the relationship of Landlord and Tenant hereunder, or Tenant's use or occupancy of the Premises.

ARTICLE 27
INABILITY TO PERFORM

This Lease and the obligations of both parties hereunder shall not be affected or impaired because a party obligated to perform is unable to fulfill any of its obligations hereunder or is delayed in doing so, if such inability or delay is caused by reason of any prevention, delay or stoppage due to strikes, lockouts, acts of God, terrorism, evacuation or any other cause previously, or at such time, beyond the reasonable control or anticipation of such party (collectively, a "**Force Majeure**") and such party's obligations under this Lease shall be forgiven and suspended by any such Force Majeure; provided, however, that this Article 27 is not intended to, and shall not, extend the time period for the payment of any monetary amounts due (including, without limitation, rent payments from Tenant) from either party to the other under this Lease nor relieve either party from their monetary obligations to the other under this Lease.

ARTICLE 28
HAZARDOUS WASTE

(a) Tenant shall not cause or permit any Hazardous Material (as defined in Section 28(b) below) to be brought, kept or used in or about the Project by Tenant, its agents, employees or contractors, except for products that are incidental to Tenant's use of the Premises and general office supplies typically used in the ordinary course of business (e.g., copier toner, glue, ink, and cleaning solvents), which shall be in commercially reasonable amounts and in accordance with all applicable Environmental Laws. Tenant indemnifies Landlord and the Landlord Parties from and against any breach by Tenant of the obligations stated in the preceding sentence, and agrees to indemnify, defend and hold Landlord and the Landlord Parties harmless from and against any and all Claims as a result of the release of Hazardous Materials by Tenant or Tenant's agents, employees, contractors and subcontractors. Such obligations shall survive the expiration or termination of this Lease.

(b) As used herein, the term "**Hazardous Material**" means any hazardous or toxic substance, material, or waste which is or becomes regulated by any local governmental authority, the State of California or the United States Government. The term "Hazardous Material" includes, without limitation, any material or substance which is (i) defined as "Hazardous Waste," "Extremely Hazardous Waste," or "Restricted Hazardous Waste" under Sections 25115, 25117 or 25122.7, or listed pursuant to Section 25140, of the California Health and Safety Code, Division 20, Chapter 6.5 (Hazardous Waste Control Law), (ii) defined as a "Hazardous Substance" under Section 25316 of the California Health and Safety Code, Division 20, Chapter 6.8 (Carpenter-Presley-Tanner Hazardous Substance Account Act), (iii) defined as a "Hazardous Material," "Hazardous Substance," or "Hazardous Waste" under Section 25501 of the California Health and Safety Code, Division 20, Chapter 6.95 (Hazardous Materials Release Response Plans and Inventory), (iv) defined as a "Hazardous Substance" under Section 25281 of the California Health and Safety Code, Division 20, Chapter 6.7 (Underground Storage of Hazardous Substances), (v) petroleum, (vi) asbestos, (vii) listed under Article 9 or defined as Hazardous or extremely hazardous pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20, (viii) designated as a "Hazardous Substance" pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. § 1317), (ix) defined as a "Hazardous Waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. § 6901 et seq. (42 U.S.C. § 6903), or (x) defined as a "Hazardous Substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601 et seq. (42 U.S.C. § 9601).

(c) As used herein, the term "**Environmental Laws**" means any applicable federal, state or local law, ordinance, or regulation relating to any Hazardous Material affecting the Project, including, without limitation, the laws, ordinances, and regulations referred to in Section 28(b) above.

(d) Landlord shall, at no cost to Tenant (and not as an Operating Cost), remove or remediate any Hazardous Material in the Project to the extent required under applicable Environmental Laws, except where such removal or remediation is Tenant's responsibility pursuant to Section 28(a) above and except that the cost of any abatement, clean-up or remediation of Hazardous Materials which exist at the Project as of the date of this Lease and required by Environmental Laws may be passed through to Tenant as an Operating Cost.

ARTICLE 29
SURRENDER OF PREMISES; REMOVAL OF PROPERTY

(a) The voluntary or other surrender of this Lease by Tenant to Landlord, or a mutual termination hereof, shall not work a merger, and shall at the option of Landlord, operate as an assignment to it of any or all subleases or subtenancies affecting the Premises.

(b) Upon the expiration of the Term of this Lease, or upon any earlier termination of this Lease, Tenant shall quit and surrender possession of the Premises to Landlord in the same condition as on the Commencement Date, reasonable wear and tear and repairs which are Landlord's obligation excepted, and shall, without expense to Landlord, remove or cause to be removed from the Premises all debris and rubbish, all furniture, equipment, business and trade fixtures, free-standing cabinet work, moveable partitioning, and other articles of personal property in the Premises. Tenant shall be responsible for the cost to repair all damage to the Premises resulting from the removal of any of such items from the Premises.

(c) Whenever Landlord shall reenter the Premises as provided in Article 20 hereof, or as otherwise provided in this Lease, any property of Tenant not removed by Tenant upon the expiration of the Term of this Lease, as provided in this Lease, shall be considered abandoned and Landlord may remove any or all of such items and dispose of the same in any manner or store the same in a public warehouse or elsewhere for the account and at the expense and risk of Tenant, and if Tenant shall fail to pay the cost of storing any such property after it has been stored for a period of thirty (30) days or more, Landlord may sell any or all of such property at public or private sale, in such manner and at such times and places as Landlord, in its sole discretion, may deem proper, without notice to or demand upon Tenant, for the payment of all or any part of such charges or the removal of any such property, and shall apply the proceeds of such sale as follows: first, to the cost and expense of such sale, including reasonable attorneys' fees and costs for services rendered; second, to the payment of the cost of or charges for storing any such property; third, to the payment of any other sums of money which may then or thereafter be due to Landlord from Tenant under any of the terms hereof; and fourth, the balance, if any, to Tenant.

(d) Tenant Improvements and Alterations attached to or built into the Premises prior to or during the Term shall be and remain part of the Premises and shall not be removed by Tenant at the end of the Term unless otherwise expressly provided in Section 9(f) above. However, notwithstanding the foregoing, (i) Tenant shall be required to remove any specialized chillers, chilled water lines, compressors and liquid nitrogen tanks in accordance with all applicable Laws upon the expiration or earlier termination of this Lease, and (ii) Tenant may, but shall not be obligated to, remove the items listed on Exhibit "C" attached hereto and made a part hereof, in which case Tenant shall repair any damage to the Premises resulting from such removal.

ARTICLE 30
MISCELLANEOUS

(a) **SEVERABILITY; ENTIRE AGREEMENT.** ANY PROVISION OF THIS LEASE WHICH SHALL PROVE TO BE INVALID, VOID, OR ILLEGAL SHALL IN NO WAY AFFECT, IMPAIR OR INVALIDATE ANY OTHER PROVISION HEREOF AND SUCH OTHER PROVISIONS SHALL REMAIN IN FULL FORCE AND EFFECT. THIS LEASE AND THE EXHIBITS ATTACHED HERETO CONSTITUTE THE ENTIRE AGREEMENT BETWEEN THE PARTIES HERETO WITH REGARD TO TENANT'S OCCUPANCY OR USE OF ALL OR ANY PORTION OF THE PROJECT, AND NO PRIOR AGREEMENT OR UNDERSTANDING PERTAINING TO ANY SUCH MATTER SHALL BE EFFECTIVE FOR ANY PURPOSE. NO PROVISION OF THIS LEASE MAY BE AMENDED OR SUPPLEMENTED EXCEPT BY AN AGREEMENT IN WRITING SIGNED BY THE PARTIES HERETO OR THEIR SUCCESSOR IN INTEREST. THE PARTIES AGREE THAT ANY DELETION OF LANGUAGE FROM THIS LEASE PRIOR TO ITS MUTUAL EXECUTION BY LANDLORD AND TENANT SHALL NOT BE CONSTRUED TO HAVE ANY PARTICULAR MEANING OR TO RAISE ANY PRESUMPTION, CANON OF CONSTRUCTION OR IMPLICATION INCLUDING, WITHOUT LIMITATION, ANY IMPLICATION THAT THE PARTIES INTENDED THEREBY TO STATE THE CONVERSE, OBVERSE OR OPPOSITE OF THE DELETED LANGUAGE.

(b) Attorneys' Fees; Waiver of Jury Trial.

(i) In any action to enforce the terms of this Lease, including any suit by Landlord for the recovery of rent or possession of the Premises, the losing party shall pay the successful party a reasonable sum for attorneys' fees and costs in such suit and such attorneys' fees and costs shall be deemed to have accrued prior to the commencement of such action and shall be paid whether or not such action is prosecuted to judgment.

(ii) TO THE EXTENT PERMITTED BY LAW, EACH PARTY HEREBY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION SEEKING SPECIFIC PERFORMANCE OF ANY PROVISION OF THIS LEASE, FOR DAMAGES FOR ANY BREACH UNDER THIS LEASE, OR OTHERWISE FOR ENFORCEMENT OF ANY RIGHT OR REMEDY HEREUNDER.

(c) Time of Essence. Time is of the essence with respect to the performance of every provision of this Lease.

(d) Headings. The article headings contained in this Lease are for convenience only and do not in any way limit or amplify any term or provision hereof. The terms "Landlord" and "Tenant" as used herein shall include the plural as well as the singular, and the neuter shall include the masculine and feminine genders.

(e) Rules and Regulations. Tenant shall observe the reasonable and non-discriminatory rules and regulations ("**Rules and Regulations**") which Landlord may from time to time reasonably adopt by notice to Tenant for the safety, care and cleanliness of the Project, the facilities thereof, or the preservation of good order therein. Any such Rules and Regulations shall be consistent with the terms of this Lease and in the event of any inconsistency between this Lease and the Rules and Regulations, this Lease shall prevail.

(f) Quiet Possession. Upon Tenant's paying the Basic Rental, Additional Rent and other sums provided hereunder and observing and performing all of the covenants, conditions and provisions on Tenant's part to be observed and performed hereunder, Tenant shall have quiet possession of the Premises for the entire Term hereof, subject to all of the provisions of this Lease.

(g) Rent. All payments required to be made hereunder to Landlord shall be deemed to be rent, whether or not described as such.

(h) Successors and Assigns. Subject to the provisions of Article 15 hereof, all of the covenants, conditions and provisions of this Lease shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

(i) Notices. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal service evidenced by a signed receipt (or refusal to accept delivery) or sent by registered or certified mail, return receipt requested, or via overnight courier, and shall be effective upon proof of delivery (or refusal to accept delivery), addressed to Tenant at the Premises, Attn: Chief Financial Officer, or to Landlord at 65 Enterprise, Aliso Viejo, CA 92656. Either party may by notice to the other specify a different address for notice purposes.

(j) Survival of Obligations. Any obligations of Landlord or Tenant occurring prior to the expiration or earlier termination of this Lease shall survive such expiration or earlier termination.

(k) Governing Law. This Lease shall be governed by and construed in accordance with the laws of the State of California. No conflicts of law rules of any state or country (including, without limitation, California conflicts of law rules) shall be applied to result in the application of any substantive or procedural laws of any state or country other than California. All controversies, claims, actions or causes of action arising between the parties hereto and/or their respective successors and assigns, shall be brought, heard and adjudicated by the courts of the State of California, with venue in the County in which the Project is located. Each of the parties hereto hereby consents to personal jurisdiction by the courts of the State of California in connection with any such controversy, claim, action or cause of action, and each of the parties hereto consents to service of process by any means authorized by California law and consent to the enforcement of any judgment so obtained in the courts of the State of California on the same terms and conditions as if such controversy, claim, action or cause of action had been originally heard and adjudicated to a final judgment in such courts. Each of the parties hereto further acknowledges that the laws and courts of California were freely and voluntarily chosen to govern this Lease and to adjudicate any claims or disputes hereunder.

(l) Office of Foreign Assets Control. Each party certifies to the other that (i) they are not entering into this Lease, nor acting, for or on behalf of any person or entity named as a terrorist or other banned or blocked person or entity pursuant to any law, order, rule or regulation of the United States Treasury Department or the Office of Foreign Assets Control, and (ii) they shall not assign their interest in this Lease or, in the case of Tenant, sublease to any such person or entity or anyone acting on behalf of any such person or entity.

(m) California Certified Access Specialist Inspection. Landlord hereby informs Tenant that the Project has not undergone inspection by a Certified Access Specialist (as defined in the California Code of Regulations).

(n) Exterior Equipment. Throughout the Term of this Lease (as may be extended), Tenant shall be entitled to maintain any existing backup generators serving the Premises and, subject to Landlord's prior approval of all plans and specifications, which approval shall not be unreasonably withheld, Landlord shall permit Tenant to install and maintain, at Tenant's sole cost and expense, a new backup generator at a location reasonably approved by Landlord (collectively, "**Backup Generators**"). Such Backup Generators shall be used by Tenant during (i) testing and regular maintenance, and (ii) any period of electrical power outage in the Project. Tenant shall ensure that the Backup Generators do not result in Hazardous Materials contamination (and Section 28(a) will apply to Tenant's use of Backup Generators) and Tenant shall be responsible for ensuring that the Backup Generators do not unreasonably interfere with the use of the Project by other tenants. Furthermore, throughout the Term of this Lease (as may be extended), Tenant shall be entitled to maintain and Landlord shall not disturb any existing air compressors, air tanks, and pipes for chilled water, vacuum and liquid nitrogen inside and outside of the Premises (together with the Backup Generators, collectively, "**Exterior Equipment**"); provided that Tenant, at Tenant's cost, shall maintain all such equipment in good condition and repair and in compliance with all applicable Laws. Upon expiration or earlier termination of this Lease, except as expressly provided in Section 29(d) above, the Exterior Equipment shall not be removed by Tenant and shall be left in place.

(o) Landlord Lien Waiver/Equipment Financing. Landlord acknowledges that some of Tenant's furniture, trade fixtures, equipment and other personal property (collectively "**Tenant's Property**") installed and used by Tenant on the Premises may be financed by a third-party lender or lessor (collectively, an "**Equipment Lienor**"), and Landlord hereby agrees to recognize the rights of any such Equipment Lienor to remove Tenant's Property from the Premises during the Lease Term (or any Option Term, if applicable), subject to the Lienor Requirements below. Landlord agrees that all of Tenant's Property installed or to be installed on the Premises shall be and remain personal property and not real property. Landlord waives the right of distraint and agrees that it does not have and shall not assert any right, lien or claim in or to the financed or leased Tenant's Property, and agrees that, subject to the Lienor Requirements, any Equipment Lienor may remove and dispose of such financed or leased Tenant's Property, without reference to, and free and clear of, any demand of Landlord. Upon Tenant's request, Landlord shall promptly execute and deliver to Tenant a form of Landlord's waiver reasonably acceptable to Landlord in favor of any Equipment Lienor; provided, however, that any such document must provide the following (collectively, the "**Lienor Requirements**"): (i) such lender shall not have the right to place a lien on, nor remove, any Tenant Improvements, any Alterations, any item which is a part of Landlord's realty or any other item which has been permanently affixed to the Premises or the Project, (ii) any such Equipment Lienor must agree to repair any damage to the Premises and the Project resulting from such removal and to indemnify, defend and hold Landlord harmless from any and all loss, cost, damage, expense and liability (including without limitation court costs and reasonable attorneys' fees) incurred in connection with or arising from such Equipment Lienor's exercise of its rights under such lien and/or removal of any such items from the Premises, and (iii) no such Equipment Lienor shall be entitled to dispose of, sell or auction any such item at the Premises or the Project.

(p) Communication Equipment. Subject to Tenant's compliance with all Laws, Tenant and Tenant's contractors (which shall first be reasonably approved by Landlord) shall have the right and access to install, repair, replace, remove, operate and maintain satellite dishes or other similar devices, such as antennae (collectively, "**Communication Equipment**") and all cable, wiring, conduits and related equipment, for the purpose of receiving and sending radio, television, computer, telephone or other communication signals, at location(s) on the roof of the Project designated by Tenant and reasonably approved by Landlord; provided that (1) Tenant maintains all such equipment in good condition and repair and in a manner that will not unreasonably interfere with other tenants' operations in the Project, and (2) Tenant takes no action that will invalidate any roof warranties. If penetration of the roof cannot be avoided, Tenant shall retain Landlord's designated roofing contractor to make any necessary penetrations and associated repairs to the roof in order to preserve Landlord's roof warranty. Tenant's installation and operation of the Communication Equipment shall be governed by the following terms and conditions:

- (i) All plans and specifications for the Communication Equipment shall be subject to Landlord's reasonable approval.

(ii) All costs of installation, operation and maintenance of the Communication Equipment and any necessary related equipment (including, without limitation, costs of obtaining any necessary permits and connections to the Project's electrical system) shall be borne by Tenant.

(iii) Tenant shall use the Communication Equipment so as not to cause any interference to other tenants in the Project, and not to damage the Project or interfere with the normal operation of the Project and shall use the Communication Equipment solely for its use in the Premises.

(iv) Tenant shall (A) promptly pay any tax, license or permit fees charged pursuant to any laws or regulations in connection with the installation, maintenance or use of the Communication Equipment, and (B) pay for all necessary repairs, replacements to or maintenance of the Communication Equipment.

(v) The Communication Equipment shall remain the sole property of Tenant. Tenant shall remove the Communication Equipment and related equipment at Tenant's sole cost and expense upon the expiration or sooner termination of this Lease, and shall repair the Project upon such removal to the extent required by such work of removal.

(q) Exhibits. The Exhibits attached hereto are incorporated herein by this reference as if fully set forth herein.

(r) Counterparts. This Lease may be executed in counterparts, each of which shall be deemed an original, but such counterparts, when taken together, shall constitute one agreement.

(s) REIT Compliance. Tenant acknowledges that it has been informed that Atlantic CT REIT, Inc., a Delaware corporation (the "**Company**"), an affiliate of Landlord, elects to be taxed as a real estate investment trust (a "**REIT**") under the Code. Therefore, notwithstanding anything to the contrary in this Lease, Tenant shall not take any action, or permit any status to exist at the Premises, which (i) Tenant has been notified would adversely affect the Company's status as a REIT, and (ii) is not permitted under this Lease. Tenant hereby agrees to modifications of this Lease required to retain or clarify the Company's status as a REIT, provided such modifications: (a) are reasonable, (b) do not adversely affect Tenant's use of the Premises as herein permitted, and (c) do not increase the Basic Rental, Additional Rent or other sums to be paid by Tenant. Landlord may submit to Tenant an amendment to this Lease incorporating such required modifications, and Tenant shall execute, acknowledge and deliver such amendment to Landlord within thirty (30) days after Tenant's receipt thereof.

(t) No Recording. Neither this Lease nor any memorandum thereof shall be recorded by or on behalf of Tenant in any real property records or other public records without the prior written consent of Landlord, which may be withheld in Landlord's sole and absolute discretion.

ARTICLE 31
OPTION TO EXTEND

(a) Option Right. Provided that Tenant is not then in material default under this Lease after expiration of any applicable cure period, Landlord hereby grants the Tenant named in this Lease (the "**Original Tenant**") or any Affiliated Assignee two (2) options ("**Options**") to extend the Term (or first Option Term, as applicable) for the entire Premises for a period of five (5) years each ("**Option Terms**"), which Options shall be exercisable only by written notice delivered by Tenant to Landlord as set forth below. The rights contained in this Article 31 shall be personal to the Original Tenant and any Affiliated Assignee and may only be exercised by the Original Tenant or any Affiliated Assignee (and not any other transferee) if the Premises is not subject to a sublease to other than Affiliate of greater than twenty percent (20%) of the Premises as of the date of Tenant's Acceptance (as defined in Section 31(c) below).

(b) Option Rent. The rent payable by Tenant during the Option Term ("**Option Rent**") shall be equal to the "Market Rent" (defined below). "**Market Rent**" shall mean the applicable Monthly Basic Rental at which tenants, as of the commencement of the Option Term, are entering into leases for non-sublease space which is comparable in size, location and quality to the Premises in new and renewal transactions, for a term comparable to the Option Term, which comparable space is located in buildings comparable to the Project in Poway, California, taking into consideration any applicable concessions including, without limitation, free rent, improvements and improvement allowances, and also taking into consideration the value of the existing improvements in the Premises as compared to the value of the existing improvements in such comparable space.

(c) Exercise of Options. The Options shall be exercised by Tenant by delivering written notice ("**Tenant's Acceptance**") to Landlord not more than twelve (12) months nor less than nine (9) months prior to the expiration of the Term (or first Option Term, as applicable). Within fifteen (15) business days of Landlord's receipt of Tenant's written notice, Landlord shall deliver notice ("**Option Rent Notice**") to Tenant setting forth Landlord's determination of the Option Rent. Tenant may, at its option, within fifteen (15) business days of receiving Landlord's Option Rent Notice, object to Landlord's determination of the Option Rent contained in the Option Rent Notice by written notice ("**Objection Notice**") to Landlord. Tenant's failure to deliver the Tenant's Obligation Notice on or before the date specified above shall be deemed to constitute Tenant's approval of the terms set forth in the Option Rent Notice. If Tenant timely and properly exercises its Option, the Term (or first Option Term, as applicable) shall be extended for the Option Term upon all of the terms and conditions set forth in this Lease, except that the rent for the Option Term shall be as indicated in the Option Rent Notice unless Tenant objects to the Option Rent contained in the Option Rent Notice within the timeframe set forth above, in which case the parties shall follow the procedure and the Option Rent shall be determined, as set forth in Section 31(d) below.

(d) Determination of Market Rent. If Tenant timely objects to the Market Rent as provided above, Landlord and Tenant shall attempt to agree upon the Market Rent using their best good-faith efforts. If Landlord and Tenant fail to reach agreement within thirty (30) days following Tenant's Acceptance ("**Outside Agreement Date**"), then Tenant shall make a separate determination of the Market Rent which shall be submitted to Landlord, and Tenant's determination of Market Rent and Landlord's determination of Market Rent as set forth in the Option Rent Notice shall be submitted to arbitration in accordance with the following items (i) through (vii):

(i) Landlord and Tenant shall each appoint, within ten (10) days of the Outside Agreement Date, one arbitrator who shall by profession be a current real estate broker or appraiser of comparable commercial properties in the immediate vicinity of the Project, and who has been active in such field over the last ten (10) years. The determination of the arbitrators shall be limited solely to the issue of whether Landlord's or Tenant's submitted Market Rent is the closest to the actual Market Rent as determined by the arbitrators, taking into account the requirements of item (b), above (i.e., the arbitrators may only select Landlord's or Tenant's determination of Market Rent and shall not be entitled to make a compromise determination).

(ii) The two (2) arbitrators so appointed shall within five (5) business days of the date of the appointment of the last appointed arbitrator agree upon and appoint a third arbitrator who shall be qualified under the same criteria set forth hereinabove for qualification of the initial two (2) arbitrators.

(iii) The three (3) arbitrators shall within fifteen (15) days of the appointment of the third arbitrator reach a decision based on the concurrence of no less than two (2) of such arbitrators as to whether the parties shall use Landlord's or Tenant's submitted Market Rent, and shall notify Landlord and Tenant thereof.

(iv) The decision of the majority of the three (3) arbitrators shall be binding upon Landlord and Tenant.

(v) If either Landlord or Tenant fails to appoint an arbitrator within ten (10) days after the applicable Outside Agreement Date, the arbitrator appointed by one of them shall reach a decision, notify Landlord and Tenant thereof, and such arbitrator's decision shall be binding upon Landlord and Tenant.

(vi) If the two (2) arbitrators fail to agree upon and appoint a third (3rd) arbitrator, or both parties fail to appoint an arbitrator, then the appointment of the third arbitrator or any arbitrator shall be dismissed and the matter to be decided shall be forthwith submitted to arbitration under the provisions of the American Arbitration Association, but subject to the instruction set forth in this item (d).

(vii) The cost of arbitration shall be paid by Landlord and Tenant equally.

ARTICLE 32
RIGHT OF FIRST OFFER

Subject to the following terms and conditions, and provided that Tenant is not then in material default under this Lease after expiration of applicable cure periods, Landlord hereby grants to Tenant a continuing right of first offer with respect to the remainder of the Project ("**First Offer Space**"). Notwithstanding the foregoing, such first offer right of Tenant shall become effective only after the date which is three (3) years from the Commencement Date; it being agreed that Landlord shall be free to market the remainder of the Project for the first three (3) years following the Commencement Date without having to offer any space to Tenant as provided in this Article 32. Tenant's right of first offer shall be on the terms and conditions set forth in this Article 32.

(a) Procedure for Offer. If, after the first three (3) years following the Commencement Date, any space is available in the Project that Landlord desires to lease to a third party, Landlord shall notify Tenant (the "**First Offer Notice**") from time to time. The First Offer Notice shall describe the space so offered to Tenant and shall set forth Landlord's proposed material economic terms and conditions applicable to Tenant's lease of such space (collectively, the "**Economic Terms**"), including the proposed rent payable for the First Offer Space; provided, however, that the term of Tenant's lease of the First Offer Space shall be for the greater of (i) five (5) years, or (ii) a period which is co-terminous with the Term of Tenant's lease of the Premises. Notwithstanding the foregoing, Landlord's obligation to deliver the First Offer Notice shall not apply during the last twelve (12) months of the Term or first Option Term unless Tenant has timely delivered Tenant's Acceptance to Landlord pursuant to Section 31(c) above.

(b) Procedure for Acceptance. If Tenant wishes to exercise Tenant's right of first offer with respect to the space described in the First Offer Notice, then within ten (10) business days after delivery of the First Offer Notice to Tenant, Tenant shall deliver notice ("**Exercise Notice**") to Landlord of Tenant's exercise of its right of first offer with respect to the entire space described in the First Offer Notice, and the Economic Terms shall be as set forth in the First Offer Notice unless Tenant objects thereto in the Exercise Notice (which objection shall include Tenant's proposed Economic Terms). If Tenant objects in Tenant's Exercise Notice to Landlord's determination of the Economic Terms and provides Tenant's proposed Economic Terms therein, then Landlord and Tenant shall negotiate, in good faith, to agree upon such Economic Terms. If Tenant does not exercise its right of first offer within the aforementioned ten (10) business day period, or if Tenant does exercise its right of first offer by timely delivery of the Exercise Notice but objects to Landlord's determination of Economic Terms (and Landlord and Tenant are unable to agree upon such Economic Terms within ten (10) business days after Tenant's delivery of the Exercise Notice), then Landlord shall be free to lease the space described in the First Offer Notice to anyone to whom Landlord desires; provided, however, that if Landlord intends to enter into a lease upon Economic Terms which are more than five percent (5%) more favorable to a third (3rd) party tenant than those Economic Terms proposed by Landlord in the First Offer Notice (blending all concessions on a straight-line basis over the applicable lease terms), Landlord shall first deliver written notice to Tenant ("**Second Chance Notice**") providing Tenant with the opportunity to lease the First Offer Space on such more favorable Economic Terms. Tenant's failure to elect to lease the First Offer Space upon such more favorable Economic Terms by written notice to Landlord within five (5) business days after Tenant's receipt of such Second Chance Notice from Landlord shall be deemed to constitute Tenant's election not to lease such space upon such more favorable Economic Terms, in which case Landlord shall be entitled to lease such space to any third (3rd) party on terms no more favorable to the third (3rd) party than those set forth in the Second Chance Notice. If Landlord does lease such First Offer Space to a third (3rd) party tenant pursuant to the terms and conditions of this Section 32(b) above, Tenant shall have no further right to lease such First Offer Space until the expiration or earlier termination of such third (3rd) party lease including any renewal or extension of such third (3rd) party lease pursuant to an extension or renewal option specified therein. Notwithstanding anything to the contrary contained herein, Tenant must elect to exercise its right of first offer, if at all, with respect to all of the space offered by Landlord to Tenant at any particular time, and Tenant may not elect to lease only a portion thereof.

(c) Lease of First Offer Space. If Tenant timely and properly exercises Tenant's right to lease the First Offer Space as set forth herein, Landlord and Tenant shall execute an amendment to this Lease adding such First Offer Space to the Premises upon the same non-economic terms and conditions as applicable to the Premises, and the Economic Terms and conditions as provided in this Article 32.

(d) Limitation. The rights contained in this Article 32 shall be personal to the Original Tenant and any Affiliated Assignee and may only be exercised by the Original Tenant or any Affiliated Assignee (and not any other transferee) if the Premises is not subject to a sublease to other than an Affiliate of greater than twenty percent (20%) of the Premises as of the date of Tenant's receipt of the First Offer Notice.

ARTICLE 33
SIGNAGE

Tenant shall be entitled to retain the existing monument sign located closest to the Premises throughout the Term of this Lease. In addition, Tenant shall be entitled to install, at its sole cost and expense, signage on the exterior of the Project ("**Signage**"). The graphics, materials, size, color, design, lettering, lighting (if any), specifications and exact location of the Signage (collectively, the "**Signage Specifications**") shall be subject to the prior written approval of Landlord, which approval shall not be unreasonably withheld. In addition, the Signage and all Signage Specifications therefor shall be subject to Tenant's receipt of all required governmental permits and approvals and all covenants, conditions and restrictions effecting the Project. The cost of installation of Signage and all costs of design and construction of such Signage and the cost of maintenance and repair of the Signage shall be the sole responsibility of Tenant. Upon the expiration or earlier termination of this Lease, Tenant shall, at its sole cost and expense, cause the Signage to be removed from the Project and to repair any damage to the Project resulting from such removal.

IN WITNESS WHEREOF, the parties have executed this Lease, consisting of the foregoing provisions and Articles, including all exhibits referenced therein, as of the date first above written.

"LANDLORD"

CT CROSTHWAITE I, LLC,
a Delaware limited liability company

By: /s/ Dominic J. Petrucci
Print Name: Dominic J. Petrucci
Title: Treasurer

By: /s/ Carter Ewing
Print Name: Carter Ewing
Title: Secretary

"TENANT"

COHU, INC.,
a Delaware corporation

By: /s/ Jeffrey D. Jones
Print Name: Jeffrey D. Jones
Title: VP of Finance and CFO

By: /s/ John H. Allen
Print Name: John H. Allen
Title: VP of Administration

EXHIBIT "A"

PREMISES

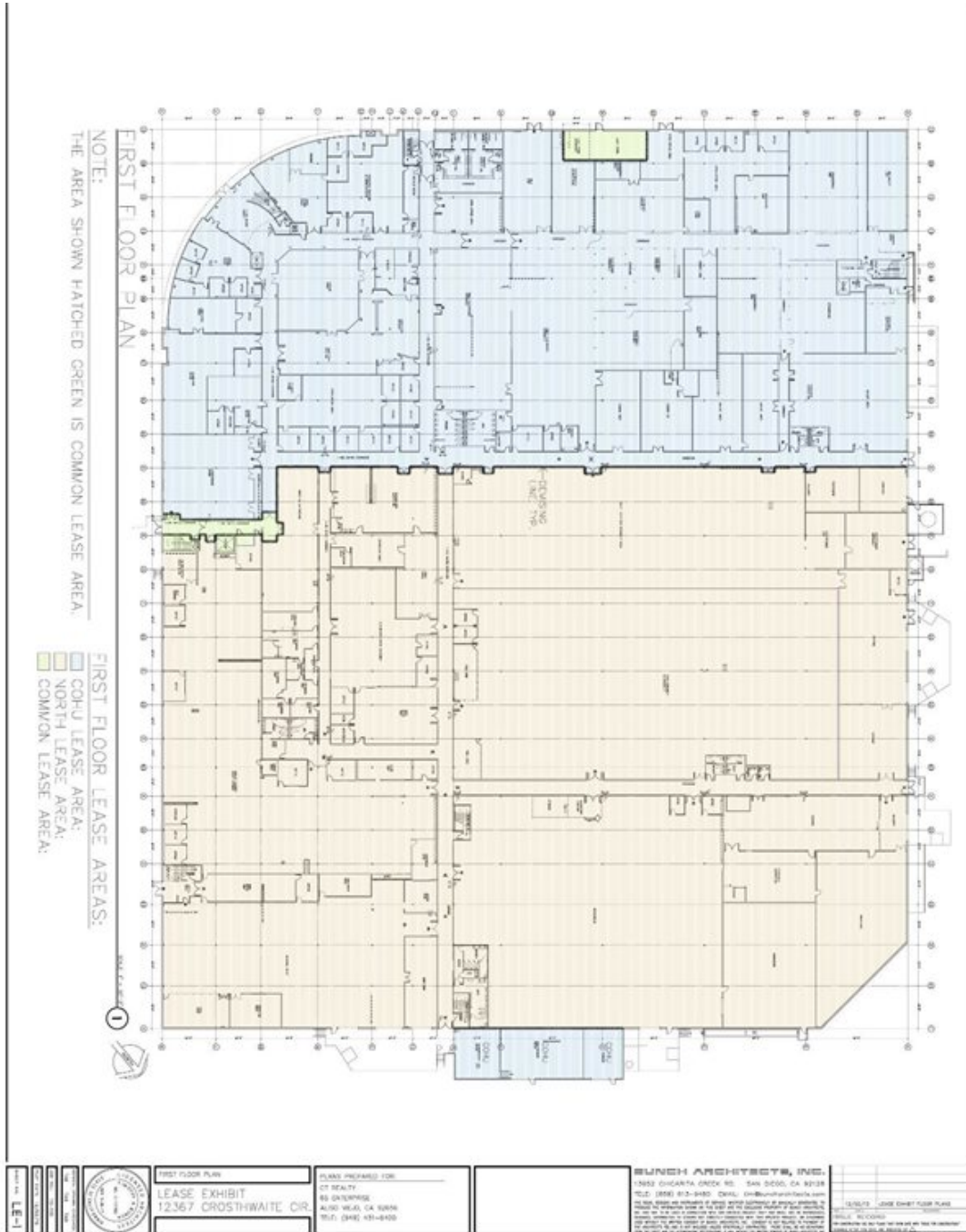


EXHIBIT "A"

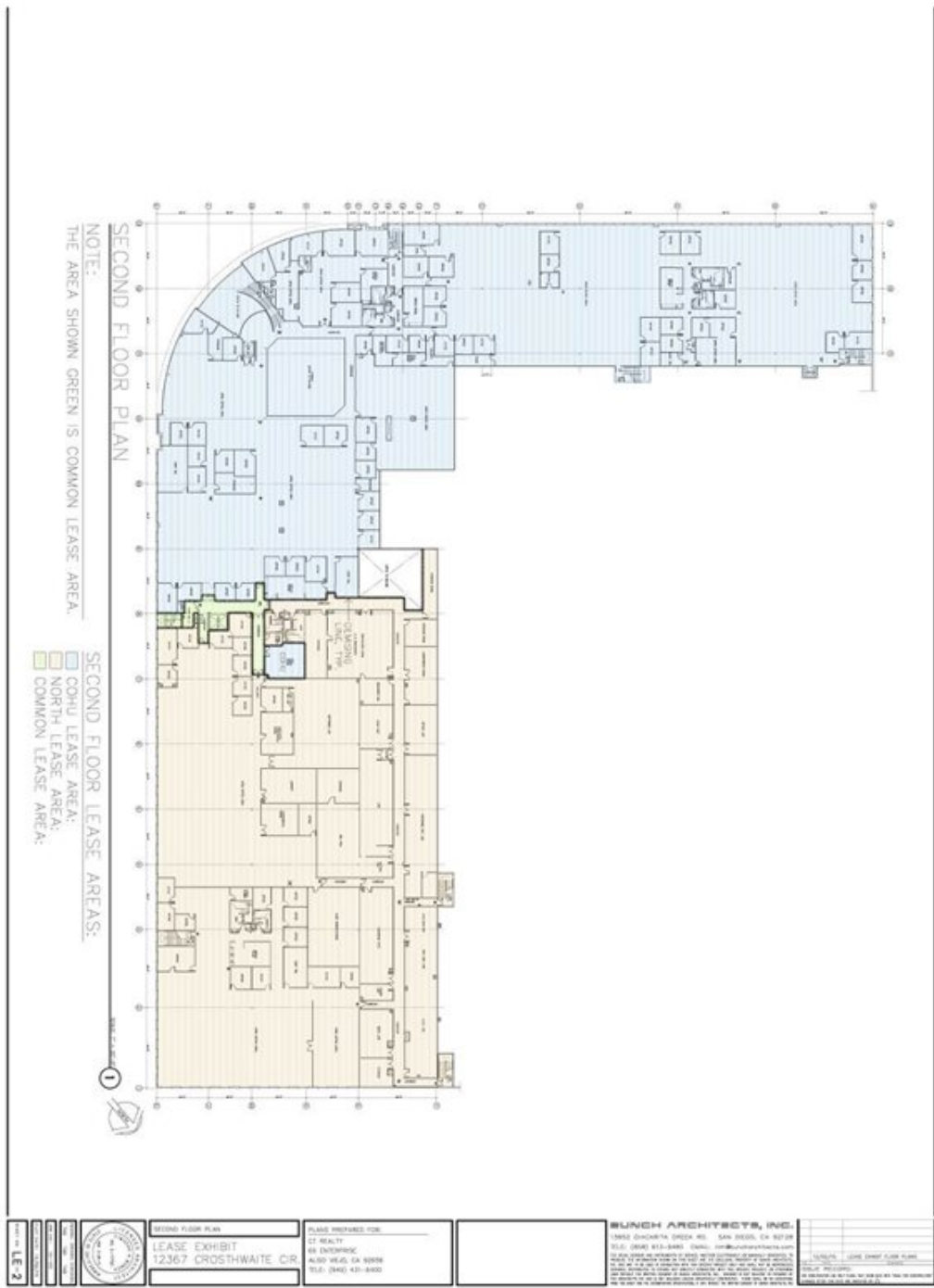


EXHIBIT "A"
-2-

EXHIBIT "B"

**NOTICE OF TERM DATES
AND TENANT'S PROPORTIONATE SHARE**

TO: _____ DATE: _____

RE: Lease dated _____, 20__, between _____ ("Landlord"), and
_____ ("Tenant"), concerning Suite _____, located at
_____.

Ladies and Gentlemen:

In accordance with the Lease, Landlord wishes to advise and/or confirm the following:

1. That the Premises have been accepted herewith by Tenant.
2. That the Tenant has taken possession of the Premises and acknowledges that under the provisions of the Lease the Term of said Lease shall commence as of _____ for a Term of _____ ending on _____.
3. That in accordance with the Lease, Basic Rental commenced to accrue on _____.
4. If the Commencement Date of the Lease is other than the first day of the month, the first billing will contain a pro rata adjustment. Each billing thereafter shall be for the full amount of the monthly installment as provided for in said Lease.
5. Rent is due and payable in advance on the first day of each and every month during the Term of said Lease. Your rent checks should be made payable to _____ at _____.
6. The exact number of rentable square feet within the Premises is _____ square feet (which includes Tenant's share of the Shared Space).
7. Tenant's Proportionate Share, as adjusted based upon the exact number of rentable square feet within the Premises (and Tenant's share of the Shared Space) is _____%.

**EXHIBIT ONLY
DO NOT SIGN**

EXHIBIT "B"

AGREED AND ACCEPTED:

TENANT:

a _____

By: _____

Its: _____

EXHIBIT ONLY
*****DO NOT SIGN*****

EXHIBIT "B"

-2-

EXHIBIT "C"

REMOVABLE ITEMS

DESC	MANUFACTURER	MODEL NO	SERIAL NO	LOCATION	REMOVE BY
Air Compressor, 200HP	Sullair	TS20-200H	003-124851	Cohu	L/T lease
Air Compressor, 200 HP	Sullair	TS20-200H	003-121678	Cohu	L/T lease
Air Compressor, 100 HP	Sullair	LS20-100H	003-112614	Cohu	L/T lease
Air Compressor, 100 HP	Sullair	LS20-100H	003-113054	Cohu	L/T lease
Air Compressor, 40 HP	Sullair	10-40	003-93827	Cohu	L/T lease
Air Compressor, 40 HP	Sullair	10-40	003-87710	Cohu	L/T lease
Air Dryer	Pneumatech	AD-500	9709-T127457-ST	Cohu	L/T lease
Air Dryer	Pneumatech	PES-2100	0102-S135226-023369	Cohu	L/T lease
Air Dryer	Airtec	TW-1000	T01035-04K	Cohu	L/T lease
Air Dryer	Airtec	SPC500-A4	100500462	Cohu	L/T lease
Air Dryer	Airtec	SCM-165	94-4625H	Cohu	L/T lease
Air Dryer	Airtec	CT-165	09G-D08658	Cohu	L/T lease
Air Dryer	Airtec	CT-2500	05E-D02013	Cohu	L/T lease
Flow Control, Compressed Air	ConservAir	E6-2K4A4	n/a	Cohu	L/T lease
Tank, Compressed Air (Large)	n/a	n/a	n/a	Cohu	L/T lease
Tank, Compressed Air	Nat'l Bld	174701	52378	Cohu	L/T lease
Vacuum Pump (Final Test)	Sullair	VS-10-15/A	003-V87493	Cohu	L/T lease
Vacuum Pump (Engineering)	Sullair	VS-10-15/A	20112090024	Cohu	L/T lease
Generator	Kohler	150REQZD	2248235	Cohu	L/T lease
Baler, Cardboard	Bace	V63	V631500121	Cohu	L/T lease
Tank, LN2	Argas	LEASED	n/a	Cohu	L/T lease
A/C Unit, Server Room	Liebert	FH199A-AAG	351847-001	Cohu	L/T lease
A/C Unit, Server Room	Liebert	DS053ADA0E162S	C11J8E0175	Cohu	L/T lease
UPS, Server Room	Toshiba	G5000 Series	n/a	Cohu	L/T lease
UPS, Server Room	Liebert	4285	n/a	Cohu	L/T lease
UPS, Server Room	Liebert	4287	n/a	Cohu	L/T lease
Argonite Pre-System	Potter	PFC-4410-RC	n/a	Cohu	L/T lease
Argonite System	Kidde	Aires	n/a	Cohu	L/T lease

EXHIBIT "C"

EXHIBIT "D"

EXCLUSIVE PARKING

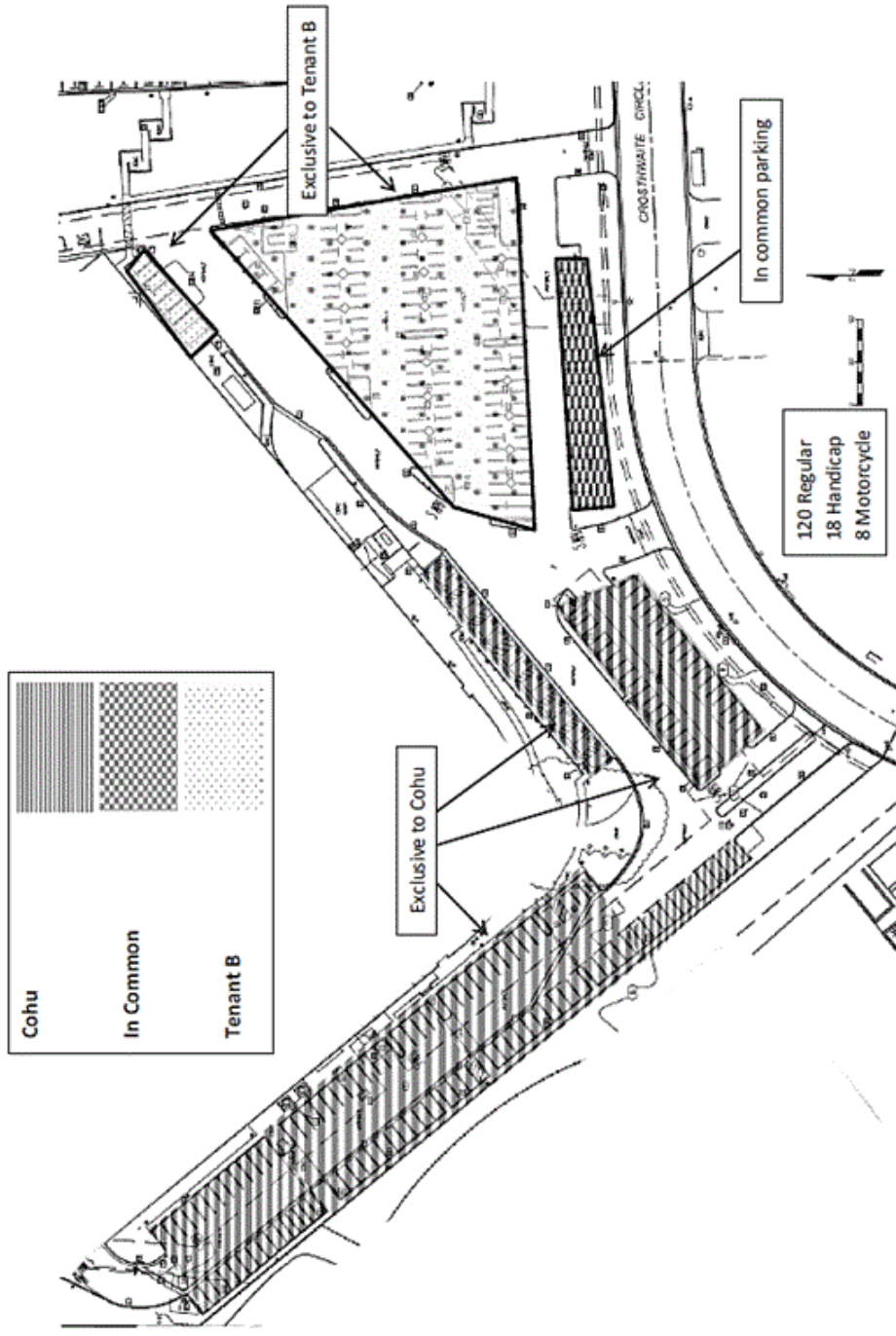


EXHIBIT "D"

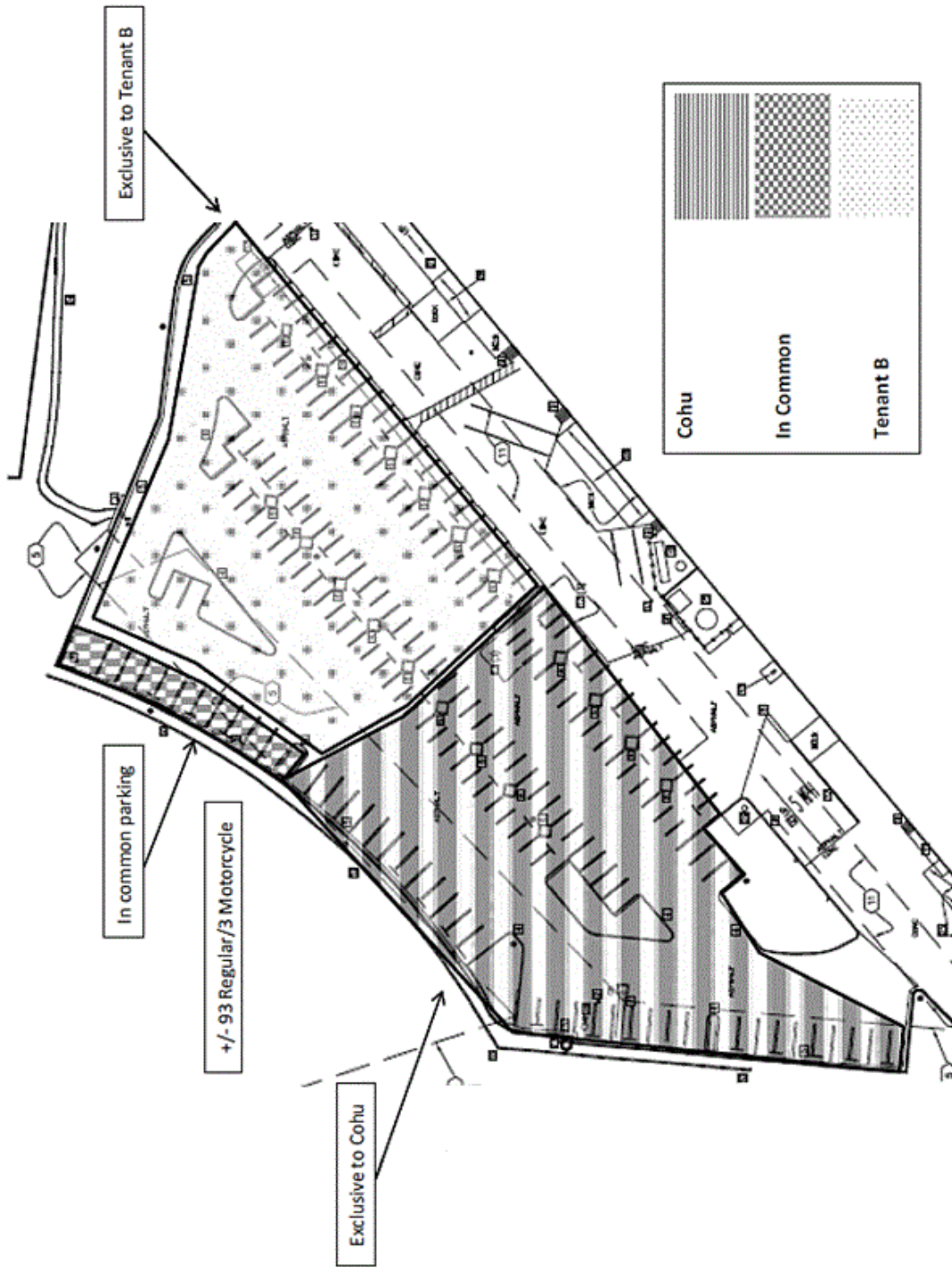


EXHIBIT "D"

EXHIBIT "E"

PRE-APPROVED ALTERATIONS

PROJECT DESCRIPTION	ESTIMATED \$	SERVICE PROVIDER	EST COMP DATE
LCBI Area/Clean Area (DI water, Construction, Electrical, Sprinklers, HVAC, Sewer)	\$183,335	Various	12/31/15
Final Test Area & THA (LN2 Pipework Modifications, Electrical, Construction)	\$72,344	Various	12/31/15
Main Conference Room	\$210,028	JVB Construction Management	01/31/16
Evacuate Grid	\$263,742	Various	01/31/16
Restrooms ADA Upgrade	\$29,675	JVB Construction Management	09/30/15
TOTAL	\$759,124		

EXHIBIT "E"

SUBSIDIARIES OF COHU, INC.

<u>LEGAL ENTITY NAME</u>	<u>INCORPORATION</u>
Delta Design, Inc. (1)	Delaware
FRL, Incorporated	California
Delta Design (Littleton), Inc.	Delaware
Cohu Foreign Sales Ltd.	Barbados

(1) Delta Design, Inc. owns the following subsidiaries:

Delta Design Luxembourg S.à r.l	Luxembourg
Delta Design Singapore PTE LTD	Singapore
Delta Design Philippines LLC	Delaware
Cohu S.A.	
Delta Design Europe GmbH	
Rasco GmbH	Germany
Rosenheim Automation Systems Corporation	California
Ismeca Semiconductor Holding SA (2)	Switzerland

(2) Ismeca Semiconductor Holding SA owns the following subsidiaries:

Ismeca Europe Semiconductor SA	Switzerland
CDF Holding USA	Delaware
Ismeca USA, Inc.	California
Cohu Malaysia Sdn. Bhd.	Malaysia
Ismeca Semiconductor (Suzhou) Co Ltd	China

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-207016, 333-62803, 333-27663, 333-40610, 333-66466, 333-97449, 333-117554, 333-132605, 333-142579, 333-160760, 333-177453 and 333-186973) pertaining to the Cohu, Inc. 1996 and 1998 Stock Option Plans, 1996 Outside Directors Stock Option Plan, 1997 Employee Stock Purchase Plan and 2005 Equity Incentive Plan of Cohu, Inc. of our reports dated February 23, 2016, with respect to the consolidated financial statements and schedule of Cohu, Inc., and the effectiveness of internal control over financial reporting of Cohu, Inc., included in this Annual Report (Form 10-K) of Cohu, Inc. for the year ended December 26, 2015.

/s/ ERNST & YOUNG LLP

San Diego, California
February 23, 2016

CERTIFICATION PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Luis A. Müller, certify that:

1. I have reviewed this Form 10-K 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 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 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.

Dated: February 23, 2016

/s/ Luis A. Müller

Luis A. Müller,
President and Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey D. Jones, certify that:

1. I have reviewed this Form 10-K 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 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 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.

Dated: February 23, 2016

/s/ Jeffrey D. Jones

Jeffrey D. Jones,
Vice President Finance and Chief Financial Officer

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

In connection with the accompanying Annual Report of Cohu, Inc. (the "Company") on Form 10-K for the fiscal year ended December 26, 2015 (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.

Dated: February 23, 2016

/s/ Luis A. Müller

Luis A. Müller,
President and Chief Executive Officer

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

In connection with the accompanying Annual Report of Cohu, Inc. (the "Company") on Form 10-K for the fiscal year ended December 26, 2015 (the "Report"), I, Jeffrey D. Jones, Vice President Finance and 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.

Dated: February 23, 2016

/s/ Jeffrey D. Jones

Jeffrey D. Jones,
Vice President Finance and Chief Financial Officer