Eclipse Resources Corp
Form 10-Q
May 11, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from __________ to __________

Commission File Number: 001-36511

Eclipse Resources Corporation

(Exact name of registrant as specified in its charter)

Delaware	**46-4812998**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
2121 Old Gatesburg Rd, Suite 110	
State College, PA	**16803**
(Address of principal executive offices)	**(Zip code)**

(814) 308-9754

(Registrant s telephone number, including area code)

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. x 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). x Yes ¨ No

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

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

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

Number of shares of the registrant s common stock outstanding at May 11, 2015: 222,531,115 shares

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ECLIPSE RESOURCES CORPORATION

QUARTERLY REPORT ON FORM 10-Q

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Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (the Quarterly Report) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements, other than statements of historical fact included in this Quarterly Report, regarding our strategy, future operations, financial position, estimated revenues and income/losses, projected costs and capital expenditures, prospects, plans and objectives of management are forward-looking statements. When used in this Quarterly Report, the words will, would, could, believe, anticipate intend, estimate, expect, project and similar expressions are intended to identify forward-looking statements, althou not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described in Item 1A. Risk Factors of our Annual Report on Form 10-K, filed with the SEC on March 9, 2015.

Forward-looking statements may include statements about, among other things:

- our business strategy;
- reserves;
- general economic conditions;
- financial strategy, liquidity and capital required for developing our properties and timing related thereto;
- realized natural gas, NGLs and oil prices;
- timing and amount of future production of natural gas, NGLs and oil;
- our hedging strategy and results;
- future drilling plans;
- competition and government regulations, including those related to hydraulic fracturing;
- the anticipated benefits under our commercial agreements;

- pending legal matters relating to our leases;
- marketing of natural gas, NGLs and oil;
- leasehold and business acquisitions;
- the costs, terms and availability of gathering, processing, fractionation and other midstream services;
- credit markets;
- uncertainty regarding our future operating results, including initial production rates and liquid yields in our type curve areas; and
- plans, objectives, expectations and intentions contained in this Quarterly Report that are not historical.

We caution you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the exploration for and development, production, gathering and sale of natural gas, NGLs and oil. These risks include, but are not limited to, legal and environmental risks, drilling and other operating risks, regulatory changes, commodity price volatility, inflation, lack of availability of drilling, production and processing equipment and services, counterparty credit risk, the uncertainty inherent in estimating natural gas, NGLs and oil reserves and in projecting future rates of production, cash flow and access to capital, the timing of development expenditures, and the other risks described in Item 1A. Risk Factors of our Annual Report on Form 10-K, filed with the SEC on March 9, 2015.

Reserve engineering is a process of estimating underground accumulations of natural gas, NGLs and oil that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data and price and cost assumptions made by reserve engineers. In addition, the results of drilling, testing and production activities may justify revisions of estimates that were made previously. If significant, such revisions could change the schedule of any further production and development drilling. Accordingly, reserve estimates may differ significantly from the quantities of natural gas, NGLs and oil that are ultimately recovered.

Should one or more of the risks or uncertainties described in this Quarterly Report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

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All forward-looking statements, expressed or implied, included in this Quarterly Report are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Quarterly Report.

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Commonly Used Defined Terms

As used in this Quarterly Report, unless the context indicates or otherwise requires, the following terms have the following meanings:

Eclipse, Eclipse Resources, the Company, we, our, us and like terms refer collectively to Eclipse Re Corporation and its consolidated subsidiaries, including Eclipse Resources I, LP, Eclipse Resources-Ohio, LLC, and Eclipse Resources Operating, LLC;

Eclipse I refers to Eclipse Resources I, LP, which is our predecessor for accounting purposes, and its consolidated subsidiaries;

Eclipse Holdings refers to Eclipse Resources Holdings, LP;

Eclipse Operating refers to Eclipse Resources Operating, LLC, which is our predecessor management company acquired as part of the reorganization completed at the time of IPO;

EnCap refers to EnCap Investments LP;

Oxford or The Oxford Oil Company refers to The Oxford Oil Company. Immediately prior to the Company s acquisition of Oxford, Oxford merged into Eclipse Resources-Ohio LLC;

Glossary of Oil and Natural Gas Terms and Companies

Antero Resources refers to Antero Resources Corporation;

Bbl A standard barrel containing 42 U.S. gallons;

Bbls/d Bbls per day;

Bcfe refers to one billion cubic feet of natural gas equivalent, determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids;

Blue Racer refers to Blue Racer Midstream, LLC;

Boe One barrel of oil equivalent, calculated by converting natural gas to oil equivalent barrels at a ratio of six Mcf of natural gas to one Bbl of oil;

Boe/d Boes per day;

Btu One British thermal unit, which is the quantity of heat required to raise the temperature of a one-pound mass of water by one degree Fahrenheit;

Completion The process of treating a drilled well followed by the installation of permanent equipment for the production of oil or natural gas or, in the case of a dry hole, the reporting of abandonment to the appropriate agency;

Condensate or Condensate Window refers to the area within the Utica Core Area in which we expect the Utica Shale wells to produce a natural gas having a heat content between approximately 1,231 Btu and 1,280 Btu, with an initial condensate yield of between approximately 31 and 180 barrels per MMcf of natural gas produced;

Developed acreage refers to the number of acres that are allocated or assignable to productive wells or wells capable of production;

Differential An adjustment to the price of oil or natural gas from an established spot market price to reflect differences in the quality and/or location of oil or natural gas;

Dry Gas or Dry Gas Window refers to the area within the Utica Core Area in which we expect the Utica Shale wells to produce natural gas having a heat content of less than approximately 1,100 Btu with a negligible initial condensate yield;

Dth is a thermal unit, and is equal to one million Btus;

Dry hole or dry well A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes;

Eureka Hunter refers to Eureka Hunter Pipeline LLC, a subsidiary of Magnum Hunter Resources Corporation;

Exploration A development or other project that may target proven or unproven reserves (such as probable or possible reserves), but which generally has a lower risk than that associated with exploration projects;

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Field An area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area, although it may refer to both the surface and the underground productive formations;

Formation A layer of rock that has distinct characteristics that differs from nearby rock;

Gross acres or gross wells The total acres or wells, as the case may be, in which a working interest is owned;

Horizontal drilling A drilling technique used in certain formations where a well is drilled vertically to a certain depth and then drilled at a right angle within a specified interval;

Identified drilling locations refers to total gross (net) resource play locations that we may be able to drill on our existing acreage. Actual drilling activities may change depending on the availability of capital, regulatory approvals, seasonal restrictions, natural gas and oil prices, costs, drilling results and other factors;

MBbl One thousand barrels;

MBoe One thousand Boe;

Mcf One thousand cubic feet;

Mcfe refers to one thousand cubic feet equivalent, determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or NGLs;

Mcf/d Mcfs per day;

MMBbls One million barrels;

MMBoe One million Boe;

MMBtu One million British thermal units;

MMcf One million cubic feet;

Mcfe refers to one thousand cubic feet equivalent, determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or NGLs;

Net acres refers to the amount of leased real estate that a petroleum and/or natural gas company has a true working interest in. Net acres express actual percentage interest when a company shares its working interest with another company; the total acreage under lease by a company is referred to as gross acres. Net acres account for the Company s percentage interest, multiplied by the gross acreage. If a company holds the entire working interest, its net acreage and gross acreage will be the same;

Net production Production that is owned by us less royalties and production due others;

NGLs Natural gas liquids. Hydrocarbons found in natural gas that may be extracted as liquefied petroleum gas and natural gasoline;

NYMEX The New York Mercantile Exchange;

Operator The individual or company responsible for the exploration and/or production of an oil or natural gas well or lease;

Plugging The sealing off of fluids in the strata penetrated by a well so that the fluids from one stratum will not escape into another or to the surface;

Productive well refers to a well that is expected to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of the production exceeds production expenses and taxes;

Prospect refers to a geological feature mapped as a location or probable location of a commercial oil and/ or gas accumulation. A prospect is defined as a result of geophysical and geological studies allowing the identification and quantification of uncertainties, probabilities of success, estimates of potential resources and economic viability;

Proved undeveloped reserves refers to proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion;

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances;

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(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time;

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir (as defined in Rule 4-10(a)(2) of Regulation S-X), or by other evidence using reliable technology establishing reasonable certainty;

PV-10 refers to, when used with respect to natural gas and oil reserves, the estimated future gross revenue to be generated from the production of proved reserves, net of estimated production, future development and abandonment costs, using sales prices used in estimating proved oil and gas reserves and costs in effect at the determination date, before income taxes, and without giving effect to non-property-related expenses, discounted to a present value using an annual discount rate of 10% in accordance with the guidelines of the SEC;

Realized price The cash market price less all expected quality, transportation and demand adjustments;

Reservoir A porous and permeable underground formation containing a natural accumulation of producible oil and/or natural gas that is confined by impermeable rock or water barriers and is separate from other reservoirs;

Rich Condensate or Rich Condensate Window refers to the area within the Utica Core Area in which we expect the Utica Shale wells to produce natural gas having a heat content in excess of 1,280 Btu, with an initial condensate yield in excess of 180 barrels per MMcf of natural gas produced;

Rich Gas refers to the area within the Utica Core Area in which we expect the Utica Shale wells to produce natural gas having a heat content between approximately 1,100 Btu and 1,230 Btu, with an initial condensate yield between approximately 1 and 30 barrels per MMcf of natural gas produced;

SEC The United States Securities and Exchange Commission;

Spacing refers to the distance between wells producing from the same reservoir. Spacing is often expressed in terms of acres, e.g., 40-acre spacing, and is often established by regulatory agencies;

Spot market price The cash market price without reduction for expected quality, transportation and demand adjustments;

Standardized measure refers to discounted future net cash flows estimated by applying sales prices used in estimating proved oil and gas reserves to the estimated future production of year-end proved reserves. Future cash inflows are reduced by estimated future production and development costs based on period-end costs to determine pre-tax cash inflows. Future income taxes, if applicable, are computed by applying the statutory tax rate to the excess of pre-tax cash inflows over our tax basis in the natural gas and oil properties. Future net cash inflows after income taxes are discounted using a 10% annual discount rate;

Undeveloped acreage Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and natural gas regardless of whether such acreage contains proved reserves;

Unit The joining of all or substantially all interests in a reservoir or field, rather than a single tract, to provide for development and operation without regard to separate property interests. Also, the area covered by a unitization agreement;

Wellbore refers to the hole drilled by the bit that is equipped for oil or natural gas production on a completed well. Also called well or borehole;

Working interest The right granted to the lessee of a property to explore for and to produce and own oil, natural gas or other minerals. The working interest owners bear the exploration, development and operating costs on either a cash, penalty or carried basis;

WTI West Texas Intermediate;

The terms development project, development well, exploratory well, proved developed reserves, proved reserves and reserves are defined by the SEC;

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ECLIPSE RESOURCES CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	March 31, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 295,359	$ 67,517
Accounts receivable	41,495	46,378
Assets held for sale	30,520	20,673
Other current assets	22,865	19,711
Total current assets	390,239	154,279
PROPERTY AND EQUIPMENT, AT COST		
Oil and natural gas properties, successful efforts method		
Unproved properties	1,021,608	1,044,469
Proved properties, net	752,691	670,255
Other property and equipment, net	8,745	8,103
Total property and equipment, net	1,783,044	1,722,827
OTHER NONCURRENT ASSETS		
Debt issuance costs, net of $3.0 million and $2.5 million of amortization, respectively	5,654	6,058
Other assets	2,531	1,782
TOTAL ASSETS	$ 2,181,468	$ 1,884,946
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 68,647	$ 137,415
Accrued capital expenditures	22,300	51,360
Accrued liabilities	17,766	13,576
Accrued interest payable	11,858	25,187
Deferred income taxes	7,081	5,246
Total current liabilities	127,652	232,784

NONCURRENT LIABILITIES		
Debt, net of unamortized discount of $7.9 million and $8.5 million, respectively	429,396	414,016
Pension obligations	1,644	1,321
Asset retirement obligations	17,942	17,400
Other liabilities	3,977	
Deferred income taxes	47,188	66,714
Total liabilities	627,799	732,235
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
Preferred stock, 50,000,000 shares authorized, no shares issued and outstanding		
Common stock, $0.01 par value, 1,000,000,000 shares authorized, 222,531,115 and 160,031,115 shares issued and outstanding	2,225	1,600
Additional paid in capital	1,825,650	1,391,004
Accumulated deficit	(273,448)	(239,345)
Accumulated other comprehensive loss	(758)	(548)
Total stockholders equity	1,553,669	1,152,711
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 2,181,468	$ 1,884,946

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ECLIPSE RESOURCES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	For the Three Months Ended March 31, 2015	For the Three Months Ended March 31, 2014
REVENUES		
Oil and natural gas sales	$ 43,814	$ 24,788
Total revenues	43,814	24,788
OPERATING EXPENSES		
Lease operating	3,346	1,791
Transportation, gathering and compression	12,451	904
Production and ad valorem taxes	2,100	353
Depreciation, depletion and amortization	42,432	12,027
Exploration	13,453	4,545
General and administrative	11,943	8,394
Rig termination	7,057	
Accretion of asset retirement obligations	386	186
Loss on sale of assets	80	
Gain on reduction of pension obligations		(2,208)
Total operating expenses	93,248	25,992
OPERATING LOSS	**(49,434)**	**(1,204)**
OTHER INCOME (EXPENSE)		
Gain (loss) on derivative instruments	11,371	(3,611)
Interest expense, net	(14,021)	(13,636)
Other income	402	
Total other expense, net	(2,248)	(17,247)
LOSS BEFORE INCOME TAXES	**(51,682)**	**(18,451)**
INCOME TAX BENEFIT	17,579	
NET LOSS	**$ (34,103)**	**$ (18,451)**
NET LOSS PER COMMON SHARE		
Basic and diluted	**$ (0.17)**	**$ (0.15)**
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic and diluted	**203,750**	**122,585**

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ECLIPSE RESOURCES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	For the Three Months Ended March 31, 2015	For the Three Months Ended March 31, 2014
NET LOSS	$ (34,103)	$ (18,451)
Other comprehensive loss:		
Pension obligation adjustment, net of tax	(210)	(862)
TOTAL COMPREHENSIVE LOSS	$ (34,313)	$ (19,313)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ECLIPSE RESOURCES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands)

(Unaudited)

	Number of Shares	Common Stock ($0.01 Par Value)	Additional Paid-in-Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balances, December 31, 2014	160,031,115	$ 1,600	$ 1,391,004	$ (239,345)	$ (548)	$ 1,152,711
Shares of common stock issued in private placement, net of offering costs	62,500,000	625	433,899			434,524
Stock-based compensation			747			747
Pension obligation adjustment, net of tax					(210)	(210)
Net loss				(34,103)		(34,103)
Balances, March 31, 2015	222,531,115	$ 2,225	$ 1,825,650	$ (273,448)	$ (758)	$ 1,553,669

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ECLIPSE RESOURCES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the Three Months Ended March 31, 2015	For the Three Months Ended March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (34,103)	$ (18,451)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation, depletion and amortization	42,432	12,027
Exploration expense	13,453	4,545
Pension benefit costs		127
Stock-based compensation	747	29
Accretion of asset retirement obligations	386	186
Gain on reduction of pension liability		(2,208)
(Gain) loss on derivative instruments	(11,371)	3,611
Net cash (payments) receipts on settled derivatives	5,965	(1,441)
Loss on sale of assets	80	
Deferred income taxes	(17,691)	
Interest not paid in cash	7,607	13,609
Amortization of deferred financing costs	539	406
Amortization of debt discount	594	522
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	6,657	(21,691)
Other assets	(272)	(1,031)
Accounts payable and accrued liabilities	(1,417)	11,276
Accrued liabilities affiliate		(1,412)
Net cash provided by operating activities	13,606	104
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures for oil and natural gas properties	(219,380)	(149,597)
Additions to other property and equipment	(682)	(1,543)
Net cash used in investing activities	(220,062)	(151,140)
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt issuance costs	(135)	(812)
Repayments of long-term debt	(91)	
Borrowings under revolving credit facility		20,000
Capital contributions		49,667

Proceeds from issuance of common stock	440,000	
Issuance costs	(5,476)	
Net cash provided by financing activities	434,298	68,855
Net increase (decrease) in cash and cash equivalents	227,842	(82,181)
Cash and cash equivalents at beginning of period	67,517	109,509
Cash and cash equivalents at end of period	$ 295,359	$ 27,328
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 12,907	$
Cash paid for income taxes	$	$
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Asset retirement obligations incurred, including changes in estimate	$ 156	$ 70
Additions of other property through debt financing	$ 888	$
Additions to oil and natural gas properties changes in accounts payable, accrued liabilities, and accrued capital expenditures	$ (95,592)	$ (7,815)
Assets held for sale associated with central gathering facility	$ 9,847	$
Interest paid-in-kind	$ 14,786	$ 22,461

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ECLIPSE RESOURCES CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Organization and Nature of Operations

Eclipse Resources Corporation (the Company) is an independent exploration and production company engaged in the acquisition and development of oil and natural gas properties in the Appalachian Basin of the United States, which encompasses the Utica Shale and Marcellus Shale prospective areas.

Note 2 Basis of Presentation

The accompanying condensed consolidated financial statements, which are unaudited except the condensed consolidated balance sheet at December 31, 2014 which is derived from the audited financial statements, are presented in accordance with the requirements of accounting principles generally accepted in the United States (U.S. GAAP) for interim reporting. They do not include all disclosures normally made and contained in annual financial statements. In management s opinion, all adjustments necessary for a fair presentation of the Company s financial position, results of operations and cash flows for the periods disclosed have been made. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, and notes to those statements, included in the Company s Annual Report on Form 10-K filed with the SEC on March 9, 2015.

Operating results for interim periods may not necessarily be indicative of the results of operations for the full year ending December 31, 2015 or any other future periods.

Preparation in accordance with U.S. GAAP requires the Company to (1) adopt accounting policies within accounting rules set by the Financial Accounting Standards Board (FASB) and (2) make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and other disclosed amounts. Note 3 *Summary of Significant Accounting Policies* describes our significant accounting policies. The Company s management believes the major estimates and assumptions impacting the condensed consolidated financial statements are the following:

- estimates of proved reserves of oil and natural gas, which affect the calculations of depreciation, depletion and amortization and impairment of capitalized costs of oil and natural gas properties;

- estimates of asset retirement obligations;

- estimates of the fair value of oil and natural gas properties the Company owns, particularly properties that the Company has not yet explored, or fully explored, by drilling and completing wells;

- impairment of undeveloped properties and other assets; and depreciation and depletion of property and equipment.

Actual results may differ from estimates and assumptions of future events and these revisions could be material. Future production may vary materially from estimated oil and natural gas proved reserves. Actual future prices may vary significantly from price assumptions.

Note 3 Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash in banks and highly liquid instruments with original maturities of three months or less, primarily consisting of bank time deposits and investments in institutional money market funds. The carrying amounts approximate fair value due to the short-term nature of these items. Cash in bank accounts at times may exceed federally insured limits.

(b) Accounts Receivable

Accounts receivable are carried at estimated net realizable value. Receivables deemed uncollectible are charged directly to expense. Trade credit is generally extended on a short-term basis, and therefore, accounts receivable do not bear interest, although a finance charge may be applied to such receivables that are past due. A valuation allowance is provided for those accounts for which collection is estimated as doubtful and uncollectible accounts are written off and charged against the allowance. In estimating the allowance, management considers, among other things, how recently and how frequently payments have been received and the financial position of the counterparty. The Company did not deem any of its accounts receivables to be uncollectable as of March 31, 2015 or December 31, 2014.

The Company accrues revenue due to timing differences between the delivery of natural gas, natural gas liquids (NGLs), and crude oil and the receipt of a delivery statement. These revenues are recorded based upon volumetric data from the Company s records and management s estimates of the related commodity sales and transportation and compression fees which are, in turn, based upon applicable product prices. The Company had $25.7 million and $24.1 million of accrued revenues, net of expenses at March 31, 2015 and December 31, 2014, respectively, which were included in accounts receivable within the Company s condensed consolidated balance sheets.

(c) Property and Equipment

Oil and Natural Gas Properties

The Company follows the successful efforts method of accounting for its oil and natural gas operations. Acquisition costs for oil and natural gas properties, costs of drilling and equipping productive wells, and costs of unsuccessful development wells are capitalized and amortized on an equivalent unit-of-production basis over the life of the remaining related oil and gas reserves. The estimated future costs of dismantlement, restoration, plugging and abandonment of oil and gas properties and related disposal are capitalized when asset retirement obligations are incurred and amortized as part of depreciation, depletion and amortization expense (see *Depreciation, Depletion and Amortization* below).

Costs incurred to acquire producing and non-producing leaseholds are capitalized. All unproved leasehold acquisition costs are initially capitalized, including the cost of leasing agents, title work and due diligence. If the Company acquires leases in a prospective area, these costs are capitalized as unproved leasehold costs. If no leases are acquired by the Company with respect to the initial costs incurred or the Company discontinues leasing in a prospective area, the costs are charged to exploration expense. Unproved leasehold costs that are determined to have proved oil and gas reserves are transferred to proved leasehold costs.

Upon the sale or retirement of a complete field of a proved property, the cost is eliminated from the property accounts, and the resultant gain or loss is reclassified to the Company s condensed consolidated statements of operations. Upon the sale of an individual well, the proceeds are credited to accumulated depreciation and depletion within the Company s condensed consolidated balance sheets. Upon sale of an entire interest in an unproved property where the property had been assessed for impairment individually, a gain or loss is recognized in the Company s condensed consolidated statements of operations. If a partial interest in an unproved property is sold, any funds received are accounted for as a reduction of the cost in the interest retained.

A summary of property and equipment including oil and natural gas properties is as follows (in thousands):

	March 31, 2015	**December 31, 2014**
Oil and natural gas properties:		
Unproved	$ 1,021,608	$ 1,044,469
Proved	925,918	802,112
Gross oil and natural gas properties	1,947,526	1,846,581
Less accumulated depreciation, depletion and amortization	(173,227)	(131,857)

Oil and natural gas properties, net	1,774,299	1,714,724
Other property and equipment	10,080	8,912
Less accumulated depreciation	(1,335)	(809)
Other property and equipment, net	8,745	8,103
Property and equipment, net	$ 1,783,044	$ 1,722,827

Exploration expenses, including geological and geophysical expenses and delay rentals for unevaluated oil and gas properties are charged to expense as incurred. Exploratory drilling costs are initially capitalized as unproved property, not subject to depletion, but charged to expense if and when the well is determined not to have found proved oil and gas reserves.

Other Property and Equipment

Other property and equipment include land, buildings, leasehold improvements, vehicles, computer equipment and software, telecommunications equipment, and furniture and fixtures. These items are recorded at cost, or fair value if acquired through a business acquisition.

(d) Revenue Recognition

Oil and natural gas sales revenue is recognized when produced quantities of oil and natural gas are delivered to a custody transfer point such as a pipeline, processing facility or a tank lifting has occurred, persuasive evidence of a sales arrangement exists, the rights and responsibility of ownership pass to the purchaser upon delivery, collection of revenue from the sales is reasonably assured and the sales price is fixed or determinable. Revenues from the sales of natural gas, crude oil and NGLs in which the Company has an interest with other producers are recognized using the sales method on the basis of the Company s net revenue interest. The Company did not have any material imbalances as of March 31, 2015 or December 31, 2014.

In accordance with the terms of joint operating agreements, from time to time, the Company may be paid monthly fees for operating or drilling wells for outside owners. The fees are meant to recoup some of the operator s general and administrative costs in connection with well and drilling operations and are accounted for as credits to general and administrative expense.

(e) Major Customers

The Company sells production volumes to various purchasers. For the three months ended March 31, 2015 and 2014, there were four and three customers that, on an individual basis, accounted for 10% or more of the Company s total natural gas, NGLs and oil sales. The following table sets forth the Company s major customers and associated percentage of revenue for the periods indicated:

	For the Three Months Ended March 31,	
	2015	2014
Purchaser		
Antero Resources Corporation	21%	52%
ARM Energy Management	32%	22%
Enlink	24%	
Magnum Hunter Marketing		17%
Blue Racer	11%	
Total	88%	91%

Management believes that the loss of any one customer would not have an adverse effect on the Company s ability to sell natural gas, NGLs and oil production because it believes that there are potential alternative purchasers and that it may be necessary to establish relationships with new purchasers. However, there can be no assurance that the Company can establish such relationships or that those relationships will result in an increased number of purchasers.

(f) Concentration of Credit Risk

Although the Company is exposed to a concentration of credit risk due to the fact that several customers account for a significant portion of its total natural gas, NGLs and oil sales, management believes that all of the Company s purchasers are credit worthy. The following table summarizes concentration of receivables, net of allowances, by product or service as of March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015	December 31, 2014
Receivables by product or service:		
Sale of oil and natural gas and related products and services	$ 25,796	$ 22,777
Joint interest owners	12,344	20,666
Miscellaneous other	3,355	2,935
Total	$ 41,495	$ 46,378

Oil and natural gas customers include pipelines, distribution companies, producers, gas marketers and industrial users primarily located in the State of Ohio. As a general policy, collateral is not required for receivables, but customers financial condition and credit worthiness are evaluated regularly.

By using derivative instruments that are not traded on an exchange to hedge exposures to changes in commodity prices, the Company exposes itself to the credit risk of counterparties. Credit risk is the potential failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty is expected to owe the

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Company, which creates credit risk. To minimize the credit risk in derivative instruments, it is the Company s policy to enter into derivative contracts only with counterparties that are creditworthy financial institutions deemed by management as competent and competitive market-makers. Additionally, the Company uses master netting agreements to minimize credit-risk exposure. The creditworthiness of the Company s counterparties is subject to periodic review. The fair value of the Company s commodity derivative contracts is a net asset position of $22.7 million at March 31, 2015 and a net asset position $19.0 million as December 31, 2014. Other than as provided by the revolving credit facility, the Company is not required to provide credit support or collateral to any of its counterparties under the Company s contracts, nor are they required to provide credit support to the Company. As of March 31, 2015 and December 31, 2014, the Company did not have past-due receivables from or payables to any of the counterparties.

(g) Accumulated Other Comprehensive Income (Loss)

Comprehensive loss includes net loss and all other changes in the equity of a business during a period from transactions and other events and circumstances from non-owner sources that, under U.S. GAAP, have not been recognized in the calculation of net loss. These changes, other than net loss, are referred to as other comprehensive loss and for the Company they include a pension benefit plan that requires the Company to (i) recognize the overfunded or underfunded status of a defined benefit retirement plan as an asset or liability in its balance sheet and (ii) recognize changes in that funded status in the year in which the changes occur through other comprehensive loss. The Company s pension plan was underfunded by $1.6 million and $1.3 million at March 31, 2015 and December 31, 2014, respectively. Effective March 31, 2014, benefit accruals in the plan were frozen resulting in a gain on reduction of pension liability of $2.2 million for the three months ended March 31, 2014.

(h) Depreciation, Depletion and Amortization

Oil and Natural Gas Properties

Depreciation, depletion, and amortization (DD&A) of capitalized costs of proved oil and natural gas properties is computed using the unit-of-production method on a field level basis using total estimated proved reserves. The reserve base used to calculate DD&A for leasehold acquisition costs and the cost to acquire proved properties is the sum of proved developed reserves and proved undeveloped reserves. The reserve base used to calculate DD&A for drilling, completion and well equipment costs, which include development costs and successful exploration drilling costs, includes only proved developed reserves. DD&A expense relating to proved oil and natural gas properties for the three months March 31, 2015 and 2014 totaled approximately $42.1 million and $12.0 million, respectively.

Through September 30, 2014, the Company calculated depletion of proved properties at the individual unit level. Effective October 1, 2014, the Company changed its estimate for calculating depletion expense of proved properties to be performed at the field level consistent with the assessment for impairment of proved property costs.

Other Property and Equipment

Depreciation with respect to other property and equipment is calculated using straight-line methods based on expected lives of the individual assets or groups of assets ranging from 5 to 40 years. Depreciation for the three months ended March 31, 2015 and 2014 totaled approximately $0.3 million and $0.1 million, respectively. This amount is included in DD&A expense in the condensed consolidated statements of operations.

(i) Impairment of Long-Lived Assets

The Company reviews its long lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that an asset s estimated future cash flows will not be sufficient to recover its carrying amount, an impairment charge will be recorded to reduce the carrying amount for that asset to its estimated fair value if such carrying amount exceeds the fair value.

During the year ended December 31, 2014, the Company changed its estimate for assessing impairment of proved property costs. Through September 30, 2014, such assessments were performed at the individual unit level. Effective October 1, 2014, assessment for impairment of proved properties is performed at the field level, which for the Company consists of three fields, including Conventional production, the Utica Shale, and the Marcellus Shale. With the increase in the Company s activity level, this change will result in a more appropriate identification of cash flows utilized in the assessment of recoverability of proved properties as additional units are placed into production, resulting in increased sharing of revenues and costs across units related to infrastructure, equipment, and fulfillment of sales and transportation contracts.

The review of the Company s oil and gas properties is done by determining if the historical cost of proved properties less the applicable accumulated DD&A and abandonment is less than the estimated expected undiscounted future cash flows. The expected future cash flows are estimated based on the Company s plans to continue to produce and develop proved reserves and a risk-adjusted portion of probable reserves. Expected future cash flow from the sale of production of reserves is calculated based on estimated future prices. The Company estimates prices based upon current contracts in place, adjusted for basis differentials and market-related information, including published futures prices. The estimated future level of production is based on assumptions surrounding future prices and costs, field decline rates, market demand and supply and the economic and regulatory climates. If the carrying value exceeds the expected future cash flows, an impairment loss is recognized for the difference between the estimated fair market value (as determined by discounted future cash flows) and the carrying value of the assets. There were no impairments of proved properties for the three months ended March 31, 2015 and 2014.

The determination of oil and natural gas reserve estimates is a subjective process, and the accuracy of any reserve estimate depends on the quality of available data and the application of engineering and geological interpretation and judgment. Estimates of economically recoverable reserves and future net cash flows depend on a number of variable factors and assumptions that are difficult to predict and may vary considerably from actual results.

Unproved properties are reviewed annually for impairment or whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recorded if conditions indicate the Company will not explore the acreage prior to expiration of the applicable leases. The Company recorded impairment charges of unproved oil and gas properties related to lease expirations of $1.6 million for the three months ended March 31, 2015. These costs are included in exploration expense in the condensed consolidated statements of operations. No such impairments were recorded for three months ended March 31, 2014.

(j) Income Taxes

The Company accounts for income taxes under the liability method as set out in the FASB s Accounting Standards Codification (ASC) Topic 740 Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, operating losses and other tax attribute carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company recognizes fines and penalties as income tax expense.

Upon the closing of the Corporate Reorganization, the Company owns 100% of Eclipse I, Eclipse Resources-Ohio, LLC and Eclipse Operating. Eclipse I was a limited partnership not subject to federal income taxes before the Corporate Reorganization. However, in connection with the closing of the Corporate Reorganization, the Company became a corporation subject to federal and state income tax and, as such, the Company s future income taxes will be dependent upon its future taxable income. The change in tax status requires the recognition of a deferred tax asset or liability for the initial temporary differences at the time of the change in status. The resulting net deferred tax liability of approximately $97.6 million was recorded as income tax expense in the consolidated statements of operations for the year ended December 31, 2014.

Topic 740 further provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of the uncertain tax position guidance and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company has not recorded a reserve for any uncertain tax positions to date.

(k) Fair Value of Financial Instruments

The Company has established a hierarchy to measure its financial instruments at fair value which requires it to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy defines three levels of inputs that may be used to measure fair value:

Level 1 Unadjusted quoted prices in active markets for identical, unrestricted assets and liabilities that the reporting entity has the ability to access at the measurement date.

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Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market date for substantially the entire contractual term of the asset or liability.

Level 3 Unobservable inputs that reflect the entity s own assumptions about the assumption market participants would use in the pricing of the asset or liability and are consequently not based on market activity but rather through particular valuation techniques.

Valuation techniques that maximize the use of observable inputs are favored. Assets and liabilities are classified in their entirety based on the lowest priority level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement of assets and liabilities within the levels of the fair value hierarchy.

(l) Derivative Financial Instruments

The Company uses derivative financial instruments to reduce exposure to fluctuations in the prices of the energy commodities it sells.

Derivatives are recorded at fair value and are included on the condensed consolidated balance sheets as current and noncurrent assets and liabilities. Derivatives are classified as current or noncurrent based on the contractual expiration date. Derivatives with expiration dates within the next 12 months are classified as current. The Company netted the fair value of derivatives by counterparty in the accompanying condensed consolidated balance sheets where the right to offset exists. The Company s derivative instruments were not designated as hedges for accounting purposes for any of the periods presented. Accordingly, the changes in fair value are recognized in the condensed consolidated statements of operations in the period of change. Gains and losses on derivatives are included in cash flows from operating activities. Premiums for options are included in cash flows from operating activities.

The valuation of the Company s derivative financial instruments represents a Level 2 measurement in the fair value hierarchy.

(m) Asset Retirement Obligation

The Company recognizes a legal liability for its asset retirement obligations (ARO) in accordance with Topic ASC 410, *Asset Retirement and Environmental Obligations*, associated with the retirement of a tangible long-lived asset, in the period in which it is incurred or becomes determinable, with an associated increase in the carrying amount of the related long-lived asset. The cost of the tangible asset, including the initially recognized asset retirement cost, is depreciated over the useful life of the asset and accretion expense is recognized over time as the discounted liability is accreted to its expected settlement value. The Company measures the fair value of its ARO using expected future cash outflows for abandonment discounted back to the date that the abandonment obligation was measured using an estimated credit adjusted rate, which was 10.45% and 8.96% for the three months ended March 31, 2015 and 2014, respectively.

Estimating the future ARO requires management to make estimates and judgments based on historical estimates regarding timing and existence of a liability, as well as what constitutes adequate restoration, inherent in the fair value calculation are numerous assumptions and judgments including the ultimate costs, inflation factors, credit adjusted discount rates, timing of settlement and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the related asset.

The following table sets forth the changes in the Company s ARO liability for the three months ended March 31, 2015 (in thousands):

Asset retirement obligations, beginning of period	$ 17,400
Additional liabilities incurred	156
Accretion	386
Asset retirement obligations, end of period	$ 17,942

The inputs used to determine such fair value are primarily based upon costs incurred historically for similar work, as well as estimates from independent third parties for costs that would be incurred to restore leased property to the contractually stipulated condition. Additions to ARO represent a significant nonrecurring Level 3 measurement.

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(n) Lease Obligations

The Company leases office space under operating leases that expire between the years 2015 2025. The lease terms begin on the date of initial possession of the leased property for purposes of recognizing lease expense on a straight-line basis over the term of the lease. The Company does not assume renewals in its determination of the lease terms unless the renewals are deemed to be reasonably assured at lease inception.

(o) Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

(p) Segment Reporting

The Company operates in one industry segment: the oil and natural gas exploration and production industry in the United States. All of its operations are conducted in one geographic area of the United States. All revenues are derived from customers located in the United States.

(q) Debt Issuance Costs

The expenditures related to issuing debt are capitalized and included in other assets in the accompanying condensed consolidated balance sheets. These costs are amortized over the expected life of the related instruments using the effective interest rate method. When debt is retired before maturity or modifications significantly change the cash flows, related unamortized costs are expensed.

(r) Recent Accounting Pronouncements

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606) (Update 2014-09)* , which supersedes the revenue recognition requirements (and some cost guidance) in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the Accounting Standards Codification. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, assets within the scope of Topic 360, Property, Plant and Equipment, and intangible assets within the scope of Topic 350, Intangibles Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in Update 2014-09. Topic 606 requires an entity to recognize 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. To achieve this, an entity should identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies the performance obligations. These requirements are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is evaluating the impact of the adoption on its financial position, results of operations and related disclosures.

In June 2014, the FASB issued ASU 2014-12, *Compensation Stock Compensation (Topic 718)* (Update 2014-12). The amendments in Update 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The amendments in Update 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply the amendments in Update 2014-12 either (a) prospectively to all awards granted or modified after the effective date, or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The Company will adopt the requirements of Update 2014-12 upon its effective date of January 1, 2016, and is not expected to have a significant impact on the Company s financial position, results of operations and related disclosures.

In April 2014, the FASB issued ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) : Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* . The objective of the amendments in this update is to change the criteria for reporting discontinued operations and enhance convergence of the FASB s and the International Accounting Standard Board s (IASB) reporting requirements for discontinued operations. The amendments in this update change the requirements for reporting discontinued operations in Subtopic 205-20. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results. The amendments in this update require an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position. The amendments in this update also require additional disclosures about discontinued operations. Public business entities must apply the amendments in this update prospectively to both of the following: (1) All disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years; (2) All businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The adoption of this update did not have a significant impact on the Company s financial position, results of operations and related disclosures.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Presentation of Financial Statements Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern.* The new standard provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Management will be required to perform interim and annual assessments of the Company s ability to continue as a going concern within one year of the date and financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods within those years, with early adoption permitted. The adoption of this standard is not expected to have an impact on the Company s financial statement disclosures.

Note 4 Sale of Oil and Natural Gas Property Interests

As of March 31, 2015, the Company has reached an agreement to sell a central processing facility and certain pipelines, which is expected to close during 2015. As a result, costs related to this facility of approximately $30.5 million are classified as assets held for sale in the condensed consolidated balance sheets as of March 31, 2015.

During the three months ended March 31, 2015, the Company completed acreage trades with two working interest owners in its Utica Core area. The first trade involved an exchange of approximately 1,400 acres and the second trade involved the exchange of approximately 7,000 acres. The exchanges were accounted for at net book value, with no gain or loss recognized. We received a credit of $17.5 million related to reimbursement of capital expenditures, which was recorded as a reduction of oil and natural gas properties.

Note 5 Derivative Instruments

Commodity Derivatives

The Company is exposed to market risk from changes in energy commodity prices within its operations. The Company utilizes derivatives to manage exposure to the variability in expected future cash flows from forecasted sales of natural gas and oil. The Company currently uses a mix of over-the-counter (OTC) fixed price swaps, basis swaps and put options spreads and collars to manage its exposure to commodity price fluctuations. All of the Company s derivative instruments are used for risk management purposes and none are held for trading or speculative purposes.

The Company is exposed to credit risk in the event of non-performance by counterparties. To mitigate this risk, the Company enters into derivative contracts only with counterparties that are rated A or higher by S&P or Moody s. The creditworthiness of counterparties is subject to periodic review. As of March 31, 2015, the Company s derivative instruments were with Bank of Montreal and Key Bank, N.A. The Company has not experienced any issues of non-performance by derivative counterparties.

Below is a summary of the Company s derivative instrument positions, as of March 31, 2015, for future production periods:

Natural Gas Derivatives

Description	Volume (MMBtu/d)	Production Period		Weighted Average Price ($/MMBtu)	
Natural Gas Swaps:					
	64,982	April 2015	December 2015	$	3.79
	25,000	January 2016	December 2016	$	3.66
Natural Gas Three-Way Collar:					
Floor purchase price (put)	15,000	April 2015	December 2015	$	3.60
Ceiling sold price (call)	15,000	April 2015	December 2015	$	3.80
Floor sold price (put)	15,000	April 2015	December 2015	$	3.00
Natural Gas Put Options:					
Put sold	16,800	April 2015	December 2015	$	3.35
Put sold	16,800	April 2015	October 2015	$	2.87
Put purchased	16,800	April 2015	October 2015	$	3.35

Put sold	16,800	January 2016	December 2016	$	2.75
Basis Swaps:					
	25,000	April 2015	October 2015	$	(1.21)

Oil Derivatives

Description	Volume (Bbls/d)	Production Period		Weighted Average Price ($/Bbl)	
Oil Collar:					
Floor purchase price (put)	3,000	April 2015	February 2016	$	55.00
Ceiling sold price (call)	3,000	April 2015	February 2016	$	61.40

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Fair Values and Gains (Losses)

The following table summarizes the fair value of the Company s derivative instruments on a gross basis and on a net basis as presented in the condensed consolidated balance sheets (in thousands). None of the derivative instruments are designated as hedges for accounting purposes.

Derivatives not designated as hedging instruments under ASC 815		**Gross Amount**		**Netting Adjustments(a)**		**Net Amount Presented in the Balance Sheets**	**Balance Sheet Location**
As of March 31, 2015							
Assets							
Commodity derivatives current	$	28,658	$	(8,399)	$	20,259	Other current assets
Commodity derivatives noncurrent		3,348		(940)		2,408	Other assets
Total assets	$	32,006	$	(9,339)	$	22,667	
Liabilities							
Commodity derivatives current	$	(8,399)	$	8,399	$		
Commodity derivatives noncurrent		(940)		940			

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

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

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

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

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

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

2014 Compared to 2013

Net Sales

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

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

Gross Margin

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

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

Research and Development Expense (R&D Expense)

R&D expense consists primarily of salaries and related costs of employees engaged in ongoing research, product design and development activities, costs of engineering materials and supplies and professional consulting expenses. Our future operating results depend, to a considerable extent on our ability to maintain a competitive advantage in the products we provide and historically we have maintained our commitment to investing in R&D in order to be able to continue to offer new products to our customers. R&D expense in 2014 was $40.6 million or 12.2% of net sales decreasing from $46.5 million or 20.1% of net sales in 2013. The decrease in 2014 was a result of product development programs that have concluded or are nearing completion as planned, and cost control measures which were implemented throughout 2013 and 2014 within both our semiconductor and microwave communications equipment segments.

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

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

Impairment of Goodwill and Other Assets

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

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Income Taxes

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

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

In assessing whether a valuation allowance is required, significant weight is to be given to evidence that can be objectively verified. We have evaluated our DTAs each reporting period, including an assessment of our cumulative income or loss over the prior three-year period and future periods, to determine if a valuation allowance was required. A significant negative factor in our assessment was Cohu s three-year cumulative U.S. loss history at the end of various fiscal periods including 2014.

As a result of our cumulative, three-year U.S. GAAP pretax loss from continuing operations of approximately $43.2 million at the end of 2014, and our U.S. loss in 2014, we were unable to conclude at December 27, 2014 that it was more likely than not that our U.S. DTAs would be realized. We will evaluate the realizability of our DTAs at the end of each quarterly reporting period in 2015 and should circumstances change it is possible the remaining valuation allowance, or a portion thereof, will be reversed in a future period.

Our valuation allowance on DTAs at December 27, 2014 and December 28, 2013 was approximately $37.0 million and $36.1 million, respectively. The remaining gross DTAs for which a valuation allowance was not recorded are realizable primarily through future reversals of existing taxable temporary differences. As the realization of DTAs is determined by tax jurisdiction, the significant deferred tax liabilities recorded as part of the 2008 acquisition of Rasco, a German corporation, and the fiscal 2013 acquisition of Ismeca, a Swiss Corporation, were not a source of taxable income in assessing the realization of our DTAs in the U.S.

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

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

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

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

2013 Compared to 2012

Net Sales

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

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

Gross Margin

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

R&D Expense

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

SG&A Expense

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

Income Taxes

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

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

Loss from Continuing Operations and Net Loss

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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Liquidity

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

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

Cash Flows

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

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

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

Capital Resources

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

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

Contractual Obligations

The following table summarizes our significant contractual obligations at December 27, 2014, and the effect such obligations are expected to have on our liquidity and cash flows in future periods. This table excludes amounts already recorded on our balance sheet as current liabilities at December 27, 2014. Amounts excluded include our liability for unrecognized tax benefits that totaled approximately $10.8 million at December 27, 2014. We are currently unable to provide a reasonably reliable estimate of the amount or period(s) the cash settlement of this liability may occur.

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

The table above does not include pension, post-retirement benefit and warranty obligations because it is not certain when these liabilities will be funded. For additional information regarding our pension and post-retirement benefits obligations see Note 6, Employee Benefit Plans and for more information on our contractual obligations, see Note 11, Guarantees in Part IV, Item 15(a) of this Form 10-K.

Commitments to contract manufacturers and suppliers. From time to time, we enter into commitments with our suppliers to purchase inventory and contract manufacturers to provide manufacturing services for our products at fixed prices or in guaranteed quantities. During the normal course of business, we issue purchase orders with estimates of our requirements several months ahead of the delivery dates. However, our agreements with these suppliers usually allow us the option to reschedule or adjust our requirements based on our business needs. Typically purchase orders outstanding with delivery dates within 30 days are non-cancelable. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. We typically do not have significant agreements for the purchase of raw materials or other goods specifying minimum quantities or set prices that exceed our expected requirements for the next six to twelve months.

Off-Balance Sheet Arrangements. During the ordinary course of business, we provide standby letters of credit instruments to certain parties as required. As of December 27, 2014, the maximum potential amount of future payments that we could be required to make under these standby letters of credit was approximately $0.4 million. No liability has been recorded in connection with these arrangements beyond those required to appropriately account for the underlying transaction being guaranteed. Based on historical experience and information currently available, we do not believe it is probable that any amounts will be required to be paid under these arrangements.

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

Investment and Interest Rate Risk.

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

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

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Foreign Currency Exchange Risk.

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

Fluctuations in currency exchange rates also impact the U.S. dollar amount of our net investment in foreign operations. The assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at the exchange rates in effect at the fiscal year-end balance sheet date. Income and expenses accounts are translated at an average exchange rate during the year which approximates the rates in effect at the transaction dates. The resulting translation adjustments are recorded in stockholders equity as a component of accumulated other comprehensive income. The U.S. dollar strengthened relative to many foreign currencies as of December 27, 2014 compared to December 28, 2013 and consequently, our stockholders equity decreased by $14.1 million as a result of the foreign currency translation.

Based upon the current levels of net foreign assets, a hypothetical 10% devaluation of the U.S. dollar as compared to these currencies as of December 27, 2014 would result in an approximate $9.7 million positive translation adjustment recorded in other comprehensive income within stockholders equity. Conversely, a hypothetical 10% appreciation of the U.S. dollar as compared to these currencies as of December 27, 2014 would result in an approximate $9.7 million negative translation adjustment recorded in other comprehensive income within stockholders equity.

Item 8. Financial Statements and Supplementary Data.

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

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

None.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures - Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of December 27, 2014, the end of the period covered by this annual report.

Management s Annual Report on Internal Control Over Financial Reporting - Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on our evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 27, 2014.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has also audited the effectiveness of our internal control over financial reporting as of December 27, 2014, as stated in their report which is included herein.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Cohu, Inc.

We have audited Cohu, Inc. s internal control over financial reporting as of December 27, 2014, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Cohu, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

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

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

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

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

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

/s/ ERNST & YOUNG LLP

San Diego, California

February 24, 2015

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Changes in Internal Control Over Financial Reporting There have been no changes in our internal control over financial reporting that occurred during the fourth quarter of 2014 that have materially affected, or are reasonably likely to materially affect, or internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information under the heading Executive Officers of the Registrant in Part I, Item 1 of this Form 10-K is incorporated by reference in this section. The other information required by this item is hereby incorporated by reference to the Company s definitive proxy statement, which will be filed with the Securities and Exchange Commission (SEC) within 120 days after the close of fiscal 2014.

Code of Business Conduct and Code of Ethics

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

Corporate Governance Guidelines and Certain Committee Charters

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

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

Item 11. Executive Compensation.

Information regarding Executive Compensation is hereby incorporated by reference to the Company s definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2014.

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

Information regarding Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters is hereby incorporated by reference to the Company s definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2014.

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

Information regarding Certain Relationships and Related Transactions, and Director Independence is hereby incorporated by reference to the Company s definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2014.

Item 14. Principal Accounting Fees and Services.

Information regarding the Principal Accounting Fees and Services is hereby incorporated by reference to the Company s definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2014.

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

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

(1) Financial Statements

The following Consolidated Financial Statements of Cohu, Inc., including the report thereon of Ernst & Young LLP, are included in this Annual Report on Form 10-K beginning on page 31:

(2) Financial Statement Schedule

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

(3) Exhibits

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

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COHU, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

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

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

The accompanying notes are an integral part of these statements.

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COHU, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

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

The accompanying notes are an integral part of these statements.

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COHU, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

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

The accompanying notes are an integral part of these statements.

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COHU, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

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

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

The accompanying notes are an integral part of these statements.

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COHU, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

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

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

The accompanying notes are an integral part of these statements.

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COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

Our fiscal years are based on a 52- or 53-week period ending on the last Saturday in December. Our fiscal years ended on December 27, 2014, December 28, 2013 and December 29, 2012 each consisted of 52 weeks.

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

Discontinued Operations On June 6, 2014 we completed the sale of substantially all of the assets of our video camera segment, Cohu Electronics, and its operating results are being presented as discontinued operations and all prior period amounts have been reclassified accordingly. See Note 2, Disposal of Video Camera Segment for additional information. Unless otherwise indicated, all amounts herein relate to continuing operations.

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

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

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

Cash, Cash Equivalents and Short-term Investments Highly liquid investments with insignificant interest rate risk and original maturities of three months or less are classified as cash and cash equivalents. Investments with maturities greater than three months are classified as short-term investments. All of our short-term investments are classified as available-for-sale and are reported at fair value, with any unrealized gains and losses, net of tax, recorded in the statement of comprehensive income (loss). We manage our cash equivalents and short-term investments as a single portfolio of highly marketable securities. We have the ability and intent, if necessary, to liquidate any of our investments in order to meet the liquidity needs of our current operations during the next 12 months. Accordingly, investments with contractual maturities greater than one year from December 27, 2014 have been classified as current assets in the accompanying consolidated balance sheets.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Trade accounts receivable are presented net of allowance for doubtful accounts of $0.3 million at December 27, 2014 and $0.5 million at December 28, 2013. Our customers include semiconductor manufacturers and semiconductor test subcontractors and other customers located throughout many areas of the world. While we believe that our allowance for doubtful accounts is adequate and represents our best estimate of potential loss exposure at December 27, 2014, we will continue to monitor customer liquidity and other economic conditions, which may result in changes to our estimates regarding collectability.

Inventories Inventories are stated at the lower of cost, determined on a current average or first-in, first-out basis, or market. Cost includes labor, material and overhead costs. Determining market value of inventories involves numerous estimates and judgments including projecting average selling prices and sales volumes for future periods and costs to complete and dispose of inventory. As a result of these analyses, we record a charge to cost of sales in advance of the period when the inventory is sold when market values are below our costs. Charges to cost of sales for excess and obsolete inventories aggregated $3.9 million, $7.8 million, and $8.6 million in 2014, 2013 and 2012, respectively.

Property, Plant and Equipment Depreciation and amortization of property, plant and equipment is calculated principally on the straight-line method based on estimated useful lives of thirty to forty years for buildings, five to fifteen years for building improvements and three to ten years for machinery, equipment and software.

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

On shipments where sales are not recognized, gross profit is generally recorded as deferred profit in our consolidated balance sheet representing the difference between the receivable recorded and the inventory shipped. In certain instances where customer payments are received prior to product shipment, the customer s payments are recorded as customer advances in our consolidated balance sheet. At December 27, 2014, we had total deferred revenue of approximately $11.3 million and deferred profit of $7.4 million. At December 28, 2013, we had total deferred revenue of approximately $7.4 million and deferred profit of $6.1 million.

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

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

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

Comprehensive Income (Loss) Our accumulated other comprehensive loss totaled approximately $10.7 million at December 27, 2014 and at December 28, 2013 our other comprehensive income totaled approximately $6.7 million and was attributed to, net of income taxes where applicable; foreign currency adjustments resulting from the translation of certain accounts into U.S. dollars, unrealized losses and gains on investments and adjustments to accumulated postretirement benefit obligations. The U.S. dollar strengthened relative to many foreign currencies as of December 27, 2014 compared to December 28, 2013. Consequently, accumulated comprehensive income decreased by $14.1 million as a result of the foreign currency translation as of December 27, 2014. Additional information related to accumulated other comprehensive income, on an after-tax basis is included in Note 12.

Recent Accounting Pronouncements

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

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

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

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

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

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

2. Disposal of Video Camera Segment (Cohu Electronics)

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

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

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

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

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

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

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

3. Microwave Communications Equipment Segment Impairment and Restructuring

Impairment of Goodwill and Other Assets

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

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

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

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

Geographic Consolidation

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

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

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

4. Strategic Technology Transactions, Goodwill and Purchased Intangible Assets

Acquisition of Ismeca

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

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

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

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

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

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

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

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

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

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

5. Cash, Cash Equivalents and Short-term Investments

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

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

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

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

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

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

(in thousands)	Amortized Cost	Estimated Fair Value

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

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

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

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

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

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

6. Employee Benefit Plans

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

Defined Benefit Retirement Plans We maintain defined benefit plans for employees located outside the U.S. for which the majority of the obligations and net periodic benefit cost were determined to be immaterial at both December 27, 2014 and December 28, 2013. As a result of the acquisition of Ismeca effective December 31, 2012, we took over the Ismeca Europe Semiconductor BVG Pension Plan in Switzerland (the Swiss Plan) and the following discussion relates to the Swiss Plan for the years ended December 27, 2014 and December 28, 2013.

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

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

Net periodic costs	$ 897	$ 972

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

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

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

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

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

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

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

Compensation increase	2.0%	2.0%

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

As is customary with Swiss pension plans, the assets of the plan are invested in a collective fund with multiple employers. We have no investment authority over the assets of the plan that are held and invested by a Swiss insurance company. Investment holdings are made with respect to Swiss laws and target allocations for plan assets are 76% debt securities, 11% real estate investments, 9% alternative investments, 3% cash and 1% equity securities. All assets of the plan fall within Level 2 of the fair value hierarchy. See Note 5 for a description of the levels of inputs used to determine fair value measurement.

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Retiree Medical Benefits We provide post-retirement health benefits to certain executives and directors under a noncontributory plan. The net periodic benefit income was $0.1 million in 2014 compared to a net periodic benefit cost of $0.1 million and $0.3 million in 2013 and 2012, respectively. We fund benefits as costs are incurred and as a result there are no plan assets.

The weighted average discount rate used in determining the accumulated post-retirement benefit obligation was 3.8% in 2014, 4.6% in 2013 and 3.7% in 2012. Annual rates of increase of the cost of health benefits were assumed to be 8.0% in 2015. These rates were then assumed to decrease 0.5% per year to 5.0% in 2021 and remain level thereafter. A one percent increase (decrease) in health care cost trend rates would increase (decrease) the 2014 net periodic benefit cost by approximately $14,000 ($11,000) and the accumulated post-retirement benefit obligation as of December 27, 2014, by approximately $363,000 ($297,000).

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

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

Deferred Compensation The Cohu, Inc. Deferred Compensation Plan allows certain of our officers to defer a portion of their current compensation. We have purchased life insurance policies on the participants with Cohu as the named beneficiary. Participant contributions, distributions and investment earnings and losses are accumulated in a separate account for each participant. At December 27, 2014 and December 28, 2013, the payroll liability to participants, included in accrued compensation and benefits in the consolidated balance sheet, was approximately $2.6 million and $2.4 million and the cash surrender value of the related life insurance policies included in other current assets was approximately $2.3 million and $2.1 million, respectively.

Employee Stock Purchase Plan The Cohu, Inc. 1997 Employee Stock Purchase Plan (the Plan) provides for the issuance of a maximum of 1,900,000 shares of our common stock. Under the Plan, eligible employees may purchase shares of common stock through payroll deductions. The price paid for the common stock is equal to 85% of the fair market value of our common stock on specified dates. In 2014, 2013, and 2012, 138,831, 163,120 and 151,812 shares, respectively, were issued under the Plan. At December 27, 2014, there were 183,591 shares reserved for issuance under the Plan.

Stock Options Under our equity incentive plans, stock options may be granted to employees, consultants and outside directors to purchase a fixed number of shares of our common stock at prices not less than 100% of the fair market value at the date of grant. Options generally vest and become exercisable after one year or in four annual increments beginning one year after the grant date and expire ten years from the grant date. At December 27, 2014, 992,666 shares were available for future equity grants under the Cohu, Inc. 2005 Equity Incentive Plan. We have historically issued new shares of Cohu common stock upon share option exercise.

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

	2014		2013		2012	
(in thousands, except per share data)	Shares	Wt. Avg. Ex. Price	Shares	Wt. Avg. Ex. Price	Shares	Wt. Avg. Ex. Price
Outstanding, beginning of year	3,086	$ 11.93	3,113	$ 12.62	3,112	$ 13.01
Granted	10	$ 12.58	470	$ 9.83	437	$ 10.50
Exercised	(237)	$ 8.43	(117)	$ 7.55	(73)	$ 8.26
Cancelled	(424)	$ 15.37	(380)	$ 16.37	(363)	$ 14.29
Outstanding, end of year	2,435	$ 11.67	3,086	$ 11.93	3,113	$ 12.62
Options exercisable at year end	1,901	$ 12.08	2,195	$ 12.46	2,209	$ 13.52

The aggregate intrinsic value of options exercised during 2014, 2013 and 2012 was approximately $0.7 million, $0.4 million, and $0.2 million, respectively. At December 27, 2014, the aggregate intrinsic value of options outstanding, vested and expected to vest were each approximately $4.4 million and the aggregate intrinsic value of options exercisable was approximately $3.4 million.

Information about stock options outstanding at December 27, 2014 is as follows *(options in thousands)*:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Approximate Wt. Avg. Remaining Life (Years)	Wt. Avg. Ex. Price	Number Exercisable	Wt. Avg. Ex. Price
$7.32 - $10.98	1,402	6.2	$ 8.86	898	$ 8.22
$10.99 - $16.49	814	4.2	$ 14.95	784	$ 14.98
$16.50 - $24.74	214	0.7	$ 17.31	214	$ 17.31
$24.75 - $37.13	5	0.6	$ 25.70	5	$ 25.70
	2,435	5.0	$ 11.67	1,901	$ 12.08

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. Shares of our common stock will be issued on the date the restricted stock units vest.

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

	2014		2013		2012	
(in thousands, except per share data)	Units		Units		Units	

		Wt. Avg. Fair Value		Wt. Avg. Fair Value		Wt. Avg. Fair Value
Outstanding, beginning of year	887	$ 9.46	615	$ 10.54	299	$ 12.98
Granted	497	$ 10.07	531	$ 8.80	462	$ 9.57
Released	(315)	$ 10.16	(223)	$ 10.86	(108)	$ 13.27
Cancelled	(43)	$ 9.41	(36)	$ 9.86	(38)	$ 13.92
Outstanding, end of year	1,026	$ 9.54	887	$ 9.46	615	$ 10.54

Equity-Based Performance Stock Units In March 2012, we began granting equity-based performance units covering shares of our common stock to certain employees. The number of shares of stock ultimately issued will depend upon the extent to which certain financial performance goals set by our Board of Directors are met during the one-year award measurement period. Based upon the level of achievement of performance goals the number of shares we ultimately issue can range from 0% up to 150% of the number of shares under each grant which vest over 3 years from the date of initial grant. On March 25, 2014, we awarded 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). The market-based PSUs issued in 2014 are subject to a one-year performance period after which the number of market-based PSUs earned will be determined and

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will then be 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 with the total adjustment ranging from 75% to 125% of the target amount 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. We record a provision for equity-based performance units outstanding 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.

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

	2014		2013		2012	
		Wt. Avg.		Wt. Avg.		Wt. Avg.
(in thousands, except per share data)	Units	Fair Value	Units	Fair Value	Units	Fair Value
Outstanding, beginning of year	238	$ 9.32	122	$ 9.89		$
Granted	208	$ 11.34	158	$ 9.03	129	$ 9.89
Released	(38)	$ 9.52	(26)	$ 9.89		$
Cancelled	(74)	$ 9.59	(16)	$ 9.89	(7)	$ 9.89
Outstanding, end of year	334	$ 10.49	238	$ 9.32	122	$ 9.89

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:

Employee Stock Purchase Plan	2014	2013	2012
Dividend yield	2.4 %	2.6 %	2.4 %
Expected volatility	35.3 %	38.4 %	43.6 %
Risk-free interest rate	0.1 %	0.1 %	0.1 %
Expected term of options	0.5 years	0.5 years	0.5 years

Weighted-average grant date fair value per share	$ 2.52	$ 2.32	$ 2.78

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Employee Stock Options	2014	2013	2012
Dividend yield	2.0 %	2.6 %	2.1 %
Expected volatility	42.5 %	44.9 %	46.3 %
Risk-free interest rate	1.9 %	1.1 %	1.2 %
Expected term of options	5.9 years	6.4 years	6.3 years
Weighted-average grant date fair value per share	$ 4.39	$ 3.37	$ 3.87

Restricted Stock Units	2014	2013	2012
Dividend yield	2.2 %	2.5 %	2.3 %

Performance Stock Units	2014	2013	2012
Dividend yield	2.2 %	2.5 %	2.3%

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

(in thousands)	2014	2013	2012
Cost of sales	$ 491	$ 390	$ 417
Research and development	1,901	1,677	1,347
Selling, general and administrative	4,193	3,279	2,735
Total share-based compensation	6,585	5,346	4,499
Income tax benefit	(204)		
Total share-based compensation, net of tax	$ 6,381	$ 5,346	$ 4,499

At December 27, 2014, excluding a reduction for forfeitures, we had approximately $1.5 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 1.0 years.

At December 27, 2014, excluding a reduction for forfeitures, we had approximately $9.6 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 1.6 years.

7. Income Taxes

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

(in thousands)	2014	2013	2012
Current:			
U.S. Federal	$ (307)	$ (1,538)	$ (1,898)
U.S. State	40	42	(388)
Foreign	4,047	825	831

Total current	3,780	(671)	(1,455)
Deferred:			
U.S. Federal	(1,207)	286	1,890
U.S. State	(17)	26	186
Foreign	737	(2,444)	(1,495)
Total deferred	(487)	(2,132)	581
	$ 3,293	$ (2,803)	$ (874)

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

(in thousands)	2014	2013	2012
U.S.	$ (3,898)	$ (29,219)	$ (10,066)
Foreign	13,026	(7,844)	(2,930)
Total	$ 9,128	$ (37,063)	$ (12,996)

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

(in thousands)	2014	2013
Deferred tax assets:		
Inventory, receivable and warranty reserves	$ 9,585	$ 13,290
Net operating loss carryforwards	8,266	9,070
Tax credit carryforwards	11,905	11,258
Accrued employee benefits	5,232	3,709
Deferred profit	1,091	839
Stock-based compensation	4,352	3,972
Acquisition basis differences	2,133	2,105
Depreciation and fixed asset related	1,001	831
Other	608	121
Gross deferred tax assets	44,173	45,195
Less valuation allowance	(37,023)	(36,064)
Total deferred tax assets	7,150	9,131
Deferred tax liabilities:		
Depreciation and fixed asset related	2,823	2,909
Acquisition basis differences	10,600	13,193
Other	643	461
Total deferred tax liabilities	14,066	16,563
Net deferred tax liabilities	$ (6,916)	$ (7,432)

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

In assessing whether a valuation allowance is required, significant weight is to be given to evidence that can be objectively verified. We have evaluated our DTAs each reporting period, including an assessment of our cumulative income or loss over the prior three-year period and future periods, to determine if a valuation allowance was required. A significant negative factor in our assessment was Cohu s three-year cumulative U.S. loss history at the end of various fiscal periods including 2014.

As a result of our cumulative, three-year U.S. GAAP pretax loss from continuing operations of approximately $43.2 million at the end of 2014, and our U.S. loss in 2014, we were unable to conclude at December 27, 2014 that it was more likely than not that our U.S. DTAs would be realized. We will evaluate the realizability of our DTAs at the end of each quarterly reporting period in 2015 and should circumstances change it is possible the remaining valuation allowance, or a portion thereof, will be reversed in a future period.

Our valuation allowance on our DTAs at December 27, 2014 and December 28, 2013 was approximately $37.0 million and $36.1 million, respectively. The remaining gross DTAs for which a valuation allowance was not recorded are realizable primarily through future reversals of existing taxable temporary differences. As the realization of DTAs is determined by tax jurisdiction, the significant deferred tax liabilities recorded as part of the 2008 acquisition of Rasco, a German corporation, and the fiscal 2013 acquisition of Ismeca, a Swiss Corporation, were not a source of taxable income in assessing the realization of our DTAs in the U.S.

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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:

(in thousands)	2014	2013	2012
Tax provision (credit) at U.S. 35% statutory rate	$ 3,194	$ (12,972)	$ (4,548)
State income taxes, net of federal tax benefit	119	(1,112)	(645)
Settlements, adjustments and releases from statute expirations	(103)	(846)	366
Change in effective tax rate for deferred balances			346
Federal tax credits	(244)	(1,340)	
Stock-based compensation on which no tax benefit provided	160	168	177
Change in valuation allowance	1,072	11,283	2,572
Foreign income taxed at different rates	(2,055)	1,526	(227)
Non-deductible goodwill impairment charge and transaction costs	1,069		700
Other, net	81	490	385
	$ 3,293	$ (2,803)	$ (874)

State income taxes, net of federal benefit, have been reduced by research tax credits totaling approximately $0.5 million, $0.7 million and $0.6 million in 2014, 2013 and 2012, respectively.

At December 27, 2014, we had federal, state and foreign net operating loss carryforwards of approximately $15.8 million, $21.8 million and $11.8 million, respectively, that expire in various tax years beginning in 2015 through 2034 or have no expiration date. We also have federal and state tax credit carryforwards at December 27, 2014 of approximately $6.3 million and $13.2 million, respectively, some of which expire in various tax years beginning in 2015 through 2034 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. Approximately $5.1 million of U.S. federal net operating loss carryforwards acquired in the Ismeca acquisition are expected to expire unutilized as a result of the annual limitations imposed by Section 382. As a result we have has reduced our deferred tax assets and valuation allowance related to these net operating loss carryforwards.

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

U.S. income taxes have not been provided on approximately $32.0 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 or incentives with respect to our operations in Malaysia, Singapore and the Philippines. These holidays or incentives require compliance with certain conditions and expire at various dates through 2023. The impact of these holidays on net income was not significant in fiscal years 2014, 2013 and 2012.

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

(in thousands)	2014	2013	2012
Balance at beginning of year	$ 10,483	$ 6,080	$ 5,381

Gross additions for tax positions of current year	761	933	776
Gross additions for tax positions of prior years	365	3,700	195
Reductions due to lapse of the statute of limitations	(587)		(272)
Foreign exchange rate impact	(181)	(230)	
Balance at end of year	$ 10,841	$ 10,483	$ 6,080

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

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COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

If the unrecognized tax benefits at December 27, 2014 are ultimately recognized, approximately $6.2 million ($6.2 million at December 28, 2013) would result in a reduction in our income tax expense and effective tax rate.

We are unable to estimate the range of any reasonably possible increase or decrease in our gross

unrecognized tax benefits over the next 12 months. However, we do not expect any such outcome will result in a material change to our financial condition or results of operations.

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 27, 2014 and $1.5 million at December 28, 2013. Interest expense, net of accrued interest reversed, was not significant in 2014 and in 2013 and 2012 was approximately $(0.1) million and $0.1 million, respectively.

Our U.S. federal and state income tax returns for years after 2010 and 2009, 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 Related Information

Our reportable segments are business units that offer different products and are managed separately because each business requires different technology and marketing strategies. As discussed in Note 2, in June 2014, we sold substantially all the assets of Cohu Electronics, which comprised our video camera segment and have presented financial information for this segment as discontinued operations. Subsequent to this transaction Cohu s remaining reportable segments are semiconductor and microwave communications equipment.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. We allocate resources and evaluate the performance of segments based on profit or loss from operations, excluding interest, corporate expenses and unusual gains or losses. Intersegment sales were not significant for any period.

Financial information by industry segment is presented below*:*

(in thousands)	2014	2013	2012
Net sales by segment:			
Semiconductor equipment	$ 316,629	$ 214,511	$ 179,449
Microwave communications	16,694	17,063	26,863
Total consolidated net sales and net sales for reportable segments	$ 333,323	$ 231,574	$ 206,312
Segment profit (loss):			
Semiconductor equipment	$ 26,658	$ (24,998)	$ (5,331)
Microwave communications (1)	(10,030)	(6,142)	(847)
Profit (loss) for reportable segments	16,628	(31,140)	(6,178)

Other unallocated amounts:			
Corporate expenses	(7,530)	(5,977)	(7,785)
Interest and other from continuing operations, net	30	54	967
Income (loss) from continuing operations before taxes	$ 9,128	$ (37,063)	$ (12,996)

(1) The loss of our microwave communications equipment segment for the year ended December 27, 2014 includes a $5.0 million impairment charge for goodwill and other assets see Note 3 for additional information.

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COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)	2014	2013	2012
Depreciation and amortization by segment deducted in arriving at profit (loss):			
Semiconductor equipment	$ 4,805	$ 4,723	$ 4,506
Microwave communications	633	523	652
	5,438	5,246	5,158
Intangible amortization	8,090	8,082	4,057
Total depreciation and amortization for reportable segments	$ 13,528	$ 13,328	$ 9,215
Capital expenditures by segment:			
Semiconductor equipment	$ 1,457	$ 3,607	$ 2,759
Microwave communications	203	267	481
Total consolidated capital expenditures	$ 1,660	$ 3,874	$ 3,240

(in thousands)	2014	2013	2012
Total assets by segment:			
Semiconductor equipment	$ 320,102	$ 297,175	$ 281,173
Microwave communications	12,935	22,156	22,635
Total assets for reportable segments	333,037	319,331	303,808
Corporate, principally cash and investments and deferred taxes	15,781	19,389	23,203
Discontinued operations		6,703	7,862
Total consolidated assets	$ 348,818	$ 345,423	$ 334,873

The customer from the semiconductor equipment segment comprising 10% or greater of our consolidated net sales is summarized as follows:

	2014	2013	2012
Intel	15 %	17 %	42 %

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

(in thousands)	2014	2013	2012
United States	$ 78,243	$ 45,773	$ 45,749
Malaysia	73,861	51,652	40,326
China	51,410	37,621	31,970
Philippines	28,670	26,563	22,507
Costa Rica	9,714	5,127	22,934
Rest of the World	91,425	64,838	42,826

Total	$ 333,323	$ 231,574	$ 206,312

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

(in thousands)	2014	2013
Property, plant and equipment:		
United States	$ 18,986	$ 21,464
Germany	7,484	8,973
Philippines	2,721	3,278
Rest of the World	2,663	2,081
Total, net	$ 31,854	$ 35,796

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COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands)	2014	2013
Goodwill and other intangible assets:		
Germany	$ 38,527	$ 51,032
Switzerland	25,921	32,513
United States	17,241	17,698
Malaysia	6,988	7,738
Singapore	6,558	6,558
Rest of the World	984	1,089
Total, net	$ 96,219	$ 116,628

9. Stockholder Rights Plan

In November, 1996, we adopted a Stockholder Rights Plan (Rights Plan) and declared a dividend distribution of one Preferred Stock Purchase Right (Right) for each share of common stock, payable to holders of record on December 3, 1996. Under the Rights Plan, each stockholder received one Right for each share of common stock owned. Each Right entitled the holder to buy one one-hundredth (1/100) of a share of Cohu s Series A Preferred Stock for $90. As a result of the two-for-one stock split in September, 1999, each share of common stock was associated with one-half of a Right entitling the holder to purchase one two-hundredth (1/200) of a share of Series A Preferred Stock for $45. In November, 2006, we amended and restated our existing Rights Plan to extend its term to November 9, 2016 and make certain other changes. Pursuant to the amendment, to reflect the increase in the price of our common stock since the adoption of the Rights Plan, the exercise price of each Right was increased to $190. Consequently, each one-half of a Right entitles the holder to purchase one two-hundredth (1/200) of a share of Series A Preferred Stock for $95. The Rights are not presently exercisable and will only become exercisable following the occurrence of certain specified events. If these specified events occur, each Right will be adjusted to entitle its holder to receive, upon exercise, common stock having a value equal to two times the exercise price of the Right, or each Right will be adjusted to entitle its holder to receive common stock of the acquiring company having a value equal to two times the exercise price of the Right, depending on the circumstances. The Rights expire on November 9, 2016, and we may redeem them for $0.001 per Right. The Rights do not have voting or dividend rights and, until they become exercisable, have no dilutive effect on our earnings per share.

10. Commitments and Contingencies

We lease certain of our facilities and equipment under non-cancelable operating leases. Rental expense was $1.9 million in 2014, $1.7 million in 2013 and $1.1 million 2012. Future minimum lease payments at December 27, 2014 are as follows:

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

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

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COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Guarantees

Changes in accrued warranty during the three-year period ended December 27, 2014 were as follows:

(in thousands)	2014	2013	2012
Beginning balance	$ 5,155	$ 4,602	$ 6,704
Warranty accruals	6,513	5,403	4,162
Warranty payments	(5,484)	(6,683)	(6,264)
Warranty liability assumed		1,833	
Ending balance	$ 6,184	$ 5,155	$ 4,602

During the ordinary course of business, we provide standby letters of credit instruments to certain parties as required. At December 27, 2014, the maximum potential amount of future payments that we could be required to make under these standby letters of credit was approximately $0.4 million. 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.

12. Accumulated Other Comprehensive Income (Loss)

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

(in thousands)	Before Tax amount	Tax (Expense) Benefit	Net-of-Tax Amount
Year Ended December 29, 2012			
Foreign currency translation adjustments	$ 1,689	$	$ 1,689
Adjustments related to postretirement benefits	362	(240)	122
Change in unrealized gain/loss on investments	(16)		(16)
Other comprehensive income	$ 2,035	$ (240)	$ 1,795
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	$ 5,145	$ (277)	$ 4,868
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	$ (17,916)	$ 551	$ (17,365)

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

(in thousands)	2014	2013
Accumulated net currency translation adjustments	$ (8,327)	$ 5,780
Accumulated net adjustments related to postretirement benefits	(2,387)	871
Total accumulated other comprehensive income	$ (10,714)	$ 6,651

13. Related Party Transactions

William E. Bendush, a member of the Cohu Board of Directors since December 8, 2011, is a member of the Board of Directors of Microsemi Corporation (MSC), a customer of our semiconductor equipment segment. During 2014, 2013 and 2012, total sales to MSC were approximately $1.1 million, $1.8 million and $1.1 million, respectively.

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COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Quarterly Financial Data (Unaudited)

Quarter		First (a)	Second (a)	Third (a)	Fourth (a)	Year
(in thousands, except per share data)						
Net sales:	2014	$ 64,864	$ 77,850	$ 94,441	$ 96,168	$ 333,323
	2013	$ 52,227	$ 62,235	$ 55,977	$ 61,135	$ 231,574
Gross profit:	2014	$ 22,200	$ 25,484	$ 33,176	$ 31,375	$ 112,235
	2013	$ 13,942	$ 19,515	$ 12,684	$ 17,247	$ 63,388
Income (loss) from continuing operations	2014	$ (3,354)	$ 931	$ 6,921	$ 1,337	$ 5,835
	2013	$ (12,235)	$ (4,334)	$ (11,113)	$ (6,578)	$ (34,260)
Net income (loss)	2014	$ (3,348)	$ 4,163	$ 7,519	$ 374	$ 8,708
	2013	$ (12,103)	$ (4,045)	$ (10,820)	$ (6,450)	$ (33,418)
Income (loss) per share (b):						
Basic:						
Income (loss) from continuing operations	2014	$ (0.13)	$ 0.04	$ 0.28	$ 0.05	$ 0.23
	2013	$ (0.50)	$ (0.17)	$ (0.44)	$ (0.27)	$ (1.37)
Net income (loss)	2014	$ (0.13)	$ 0.16	$ 0.30	$ 0.01	$ 0.34
	2013	$ (0.49)	$ (0.16)	$ (0.43)	$ (0.26)	$ (1.34)
Diluted:						
Income (loss) from continuing operations	2014	$ (0.13)	$ 0.04	$ 0.27	$ 0.05	$ 0.22
	2013	$ (0.50)	$ (0.17)	$ (0.44)	$ (0.27)	$ (1.37)
Net income (loss)	2014	$ (0.13)	$ 0.16	$ 0.29	$ 0.01	$ 0.33
	2013	$ (0.49)	$ (0.16)	$ (0.43)	$ (0.26)	$ (1.34)

(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.

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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 27, 2014 and December 28, 2013, and the related consolidated statements of operations, comprehensive loss, stockholders equity, and cash flows for each of the three years in the period ended December 27, 2014. 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 27, 2014 and December 28, 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 27, 2014, 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 27, 2014, 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 24, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Diego, California

February 24, 2015

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Index to Exhibits

15. (b) The following exhibits are filed as part of, or incorporated into, the 2014 Cohu, Inc. Annual Report on Form 10-K:

Exhibit No.	Description
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
4.1	Amended and Restated Rights Agreement dated November 10, 2006, between Cohu, Inc. and Mellon Investor Services LLC, as Rights Agent, incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 13, 2006, Exhibit 99.1
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 9, 2012 *
10.2	Amended Cohu, Inc. 1997 Employee Stock Purchase Plan, incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on May 13, 2011, Exhibit 10.1*
10.3	Cohu, Inc. Deferred Compensation Plan (as amended and restated) incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2008, Exhibit 10.1*
10.4	Form of stock option agreement for use with stock options granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on August 7, 2006*
10.5	Restricted stock unit agreement for use with restricted stock units granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on April 1, 2013*
10.6	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
10.7	Form of Indemnity Agreement, incorporated by reference from the Cohu, Inc. Current Report on Form 8-K filed July 28, 2008, Exhibit 10.1*
10.8	Cohu, Inc. Retiree Health Benefits Agreement (as amended) incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2008, Exhibit 10.2*
10.9	Cohu, Inc. Change in Control Agreement incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2008, Exhibit 10.3*

10.10	Executive Employment Agreement, dated October 7, 2014, by and between Cohu, Inc. and Luis A. Müller, incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on October 8, 2014, Exhibit 10.1 *
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

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SIGNATURES

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

COHU, INC.

Date: February 24, 2015

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.

Signature	Title	Date
/s/ James A. Donahue James A. Donahue	Executive Chairman	February 24, 2015
/s/ Luis A. Müller Luis A. Müller	President and Chief Executive Officer, Director (Principal Executive Officer)	February 24, 2015
/s/ Jeffrey D. Jones Jeffrey D. Jones	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	February 24, 2015
/s/ William E. Bendush William E. Bendush	Director	February 24, 2015
/s/ Steven J. Bilodeau Steven J. Bilodeau	Director	February 24, 2015
/s/ Andrew M. Caggia Andrew M. Caggia	Director	February 24, 2015
/s/ Harry L. Casari Harry L. Casari	Director	February 24, 2015
/s/ Robert L. Ciardella Robert L. Ciardella	Director	February 24, 2015
/s/ Harold Harrigian Harold Harrigian	Director	February 24, 2015

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COHU, INC.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

Description	Balance at Beginning of Year	Additions 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 29, 2012	$ 463	$ 1 (1)	$ (82)	$ 94	$ 288
Year ended December 28, 2013	$ 288	$ 354 (2)	$ 134	$ 233	$ 543
Year ended December 27, 2014	$ 543	$ (5)(1)	$ (228)	$ 27	$ 283
Reserve for excess and obsolete inventories:					
Year ended December 29, 2012	$ 24,552	$ 610 (1)	$ 8,621	$ 6,628	$ 27,155
Year ended December 28, 2013	$ 27,155	$ 7,422 (3)	$ 7,760	$ 4,542	$ 37,795
Year ended December 27, 2014	$ 37,795	$ (821)(1)	$ 3,876	$ 11,005	$ 29,845

In June 2014, we sold our video camera segment, Cohu Electronics and all amounts presented above have been restated to exclude the impact of this segment as it is being presented as discontinued operations.

(1) Changes in reserve balances resulting from foreign currency impact.
(2) Includes $0.4 million resulting from Ismeca Acquisition on December 31, 2012 and foreign currency impact.
(3) Includes $6.8 million resulting from Ismeca Acquisition on December 31, 2012, foreign currency impact and reclass from other reserves.

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