COHU INC
Form DEF 14A
March 28, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

COHU, INC.
(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

12367 Crosthwaite Circle

Poway, California 92064-6817

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On May 8, 2019

TO OUR STOCKHOLDERS:

The Annual Meeting of Stockholders (the "Meeting") of Cohu, Inc. ("Cohu") will be held at Cohu's corporate offices, located at 12367 Crosthwaite Circle, Poway, California 92064-6817 on Wednesday, May 8, 2019, at 1:00 p.m. Pacific Time, for the following purposes:

1. To elect two Class 3 directors, for a term of three years each.
2. Advisory vote to approve Named Executive Officer ("NEO") compensation.
3. To approve amendments to the Cohu 2005 Equity Incentive Plan (the "2005 Plan") to (i) increase the shares of stock available for issuance by 2,000,000 and (ii) eliminate a sublimit on the aggregate number of shares that may be issued pursuant to restricted stock, restricted stock units, performance shares or performance unit awards.
4. To approve an amendment to the 1997 Employee Stock Purchase Plan (the "1997 ESPP") to increase the number of shares that may be issued under the 1997 ESPP by 500,000.
5. To ratify the appointment of Ernst & Young LLP as Cohu's independent registered public accounting firm for 2019.
6. To act upon such other matters as may properly come before the Meeting or any adjournment or postponement thereof.

Only stockholders of record of Cohu as of the close of business on March 19, 2019 will be entitled to vote at the Meeting.

The holders of a majority of the outstanding shares of voting stock of Cohu entitled to vote at the Meeting must be represented in person or by proxy to constitute a quorum for the Meeting. All stockholders are urged either to attend the meeting in person or to vote by proxy.

A complete list of the stockholders of record entitled to vote at the Meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder, will be available at Cohu's corporate offices, for the examination of any stockholder during normal business hours for a period of ten days immediately prior to the meeting.

Your vote is very important to us, and voting your proxy will ensure your representation at the Meeting. Whether or not you plan to attend the Meeting, we urge you to vote as soon as possible and submit your proxy via the Internet, or if you requested to receive printed proxy materials, by telephone or by signing, dating and returning your proxy card. If you attend the Meeting, you may revoke your proxy and vote in person. You may also revoke your proxy by delivering a written notice to the Secretary of Cohu, or by submitting another duly signed proxy bearing a later date.

By Order of the Board of Directors,

Thomas D. Kampfer

Secretary

Poway, California

March 28, 2019

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be held on May 8, 2019: The Proxy Statement and Annual Report to Shareholders are available at *www.proxyvote.com*.

12367 Crosthwaite Circle

Poway, California 92064-6817

PROXY STATEMENT

GENERAL INFORMATION

This proxy statement is furnished in connection with the solicitation by the Board of Directors of Cohu, Inc., a Delaware corporation ("Cohu" or the “Company”), of your proxy for use at the 2019 Annual Meeting of Stockholders to be held on Wednesday, May 8, 2019, at 1:00 p.m. Pacific Time at Cohu’s corporate offices, located at 12367 Crosthwaite Circle, Poway, California 92064-6817 (the “Meeting”).

Distribution

We are furnishing our proxy materials to our stockholders over the internet using “Notice and Access” delivery. We elected to use this method as it reduces the environmental impact of our Meeting and our print and distribution costs. This proxy statement, the accompanying proxy card and the Cohu 2018 Annual Report are being made available to stockholders on or about March 28, 2019.

Voting

On March 19, 2019, the record date fixed by our Board of Directors (the “Board”), Cohu had outstanding 40,816,889 shares of common stock. Only stockholders of record as of the close of business on March 19, 2019, will be entitled to vote at the Meeting and any adjournment thereof. We encourage you to read the entire Proxy Statement for more information prior to voting.

Voting Procedures

As a stockholder of Cohu, you have a right to vote on certain business matters affecting Cohu. This proxy statement relates only to the solicitation of proxies from the stockholders with respect to the election of the two Class 3 directors nominated by the Board, an advisory vote on executive compensation, to approve amendments to Cohu's 2005 Equity Incentive Plan, to approve amendments to Cohu's 1997 Employee Stock Purchase Plan, and ratification of the appointment of the Company's independent registered public accounting firm. Each share of Cohu's common stock you own entitles you to one vote for each proposal.

Methods of Voting

If you received a Notice of Internet Availability of Proxy Materials on how to access the proxy materials via the Internet, a proxy card was not sent to you, and you may vote only via the Internet, unless you have requested a paper copy of the proxy materials, in which case, you may also vote by telephone or by signing, dating and returning your proxy card. Shares cannot be voted by marking, writing on and returning the Notice of Internet Availability. Any Notices of Internet Availability that are returned will not be counted as votes. Instructions for requesting a paper copy of the proxy materials are set forth on the Notice of Internet Availability.

If you are a stockholder of record and return a signed proxy card but do not specify how you want to vote your shares, your shares will be voted **FOR** the named nominees for director, **FOR** the advisory vote to approve executive compensation, **FOR** the amendments to Cohu's 2005 Equity Incentive Plan, **FOR** the amendment to Cohu's 1997 Employee Stock Purchase Plan, **FOR** the ratification of the appointment of Ernst & Young LLP as Cohu's independent registered public accounting firm for 2019, and in the discretion of the proxies (as defined below) as to other matters that may properly come before the Meeting.

Voting over the Internet. To vote over the Internet, please follow the instructions included on your Notice of Internet Availability of Proxy Materials.

Voting by Mail. If you have requested a paper copy of the proxy materials you may vote by mail by signing and returning the proxy card in the prepaid and addressed envelope provided. If you do that, you are authorizing the individuals named on the proxy card (known as "proxies") to vote your shares at the Meeting in the manner you indicate. We encourage you to sign and return the proxy card even if you plan to attend the Meeting. In this way, your shares will be voted if you are unable to attend the Meeting. If you receive more than one proxy card, it is an indication that your shares are held in multiple accounts. Please sign and return all proxy cards to ensure that all of your shares are voted.

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Voting by Telephone. If you have requested a paper copy of the proxy materials you may vote by telephone, please follow the instructions included on your proxy card. If you vote by telephone, you do not need to complete and mail your proxy card.

Voting in Person at the Meeting. If you plan to attend the Meeting and vote in person, we will provide you with a ballot at the Meeting. If your shares are registered directly in your name, you are considered the stockholder of record and you have the right to vote in person at the Meeting. If your shares are held in the name of your broker or other nominee, you are considered the beneficial owner of shares held in street name. If you wish to vote such shares at the Meeting, you will need to bring with you to the Meeting a legal proxy from your broker or other nominee authorizing you to vote such shares.

Revoking Your Proxy

You may revoke your proxy at any time before it is voted at the Meeting. In order to do this, you must:

- enter a new vote over the Internet, by telephone or by signing and returning another proxy card bearing a later date;
- provide written notice of the revocation to Cohu's Secretary; or
- attend the Meeting and vote in person.

Quorum Requirement

A quorum, which is a majority of the outstanding shares entitled to vote as of the record date, March 19, 2019, must be present in order to hold the Meeting and to conduct business. Your shares are counted as being present at the Meeting if you appear in person at the Meeting or if you vote your shares over the Internet, by telephone or by submitting a properly executed proxy card. Proxies marked as abstaining on any matter and broker non-votes (as described below) will be counted as present for the purpose of determining a quorum.

Votes Required for the Proposals

For Proposal No. 1, on May 16, 2018, the Company and its stockholders adopted a majority voting standard in uncontested elections of directors. In an uncontested election, a director nominee must receive a majority of the votes cast for such nominee's election (meaning the number of shares voted "For" a nominee must exceed the number of shares voted "Against" such nominee) in order to be elected. If the number of shares voted "Against" a director exceeds the number of shares voted "For" such director in any election, then the director nominee(s) would be requested to submit a letter of resignation and the Board would decide, through a process managed by the Nominating and Governance

Committee, whether to accept the resignation. A contested election will generally include any situation in which the Company receives a notice that a stockholder has nominated a person for election to the Board at a meeting of stockholders. A plurality voting standard continues to apply in contested director elections.

The affirmative vote of a majority of the shares of Cohu common stock cast at the Meeting is required for approval of the advisory vote on executive compensation (Proposal No. 2), approval of amendments to the Cohu 2005 Equity Incentive Plan (Proposal No. 3), approval of the amendment to the Cohu 1997 Employee Stock Purchase Plan (Proposal No. 4), and the ratification of the appointment of the Company's independent registered public accounting firm (Proposal No. 5), as described herein.

Broker Non-Votes

Broker non-votes are shares held by brokers or nominees for which voting instructions have not been received from the beneficial owners or the persons entitled to vote those shares and for which the broker or nominee does not have discretionary voting power under rules applicable to broker-dealers. If your broker holds your shares in its name and you do not instruct your broker how to vote, your broker will nevertheless have discretion to vote your shares on our sole "routine" matter — the ratification of the appointment of the Company's independent registered public accounting firm (Proposal No. 5). Your broker will not have discretion to vote on any of the other matters, which are "non-routine" matters, absent direction from you. Accordingly, shares subject to a broker "non-vote" will not be considered entitled to vote with respect to Proposals No. 1, No. 2, No. 3 and No. 4 and will not affect the outcome of these proposals. We strongly encourage you to provide instructions to your broker regarding the voting of your shares.

Abstentions

Abstentions will have no effect on the election of directors (Proposal No. 1). Abstentions will be treated as being present and entitled to vote on the approval of the advisory vote on executive compensation (Proposal No. 2), the approval of amendments to the Cohu 2005 Equity Incentive Plan (Proposal No. 3), the approval of amendments to the Cohu 1997 Employee Stock Purchase Plan (Proposal No. 4), and the ratification of the appointment of the Company's independent registered public accounting firm (Proposal No. 5) and, therefore, will have the effect of votes "Against" these proposals.

Voting Confidentiality

Proxies, ballots and voting tabulations are handled on a confidential basis to protect your voting privacy. Such information will not be disclosed except as required by law.

Voting Results

Final voting results will be announced at the Meeting and will be posted shortly after the Meeting on our website at www.cohu.com. Voting results will also be published in a Current Report on Form 8-K to be filed with the Securities and Exchange Commission ("SEC") within four business days of the Meeting. After the reports are filed, you may obtain a copy by:

- visiting our website at www.cohu.com;
- contacting our Investor Relations department at 781-467-5063; or
- viewing our Form 8-K on the SEC's website at www.sec.gov.

Proxy Solicitation Costs

Cohu will bear the entire cost of proxy solicitation, including the preparation, assembly, printing, mailing and distribution of the proxy materials. Cohu's officers, directors and regular employees will not receive additional compensation for such proxy solicitation services. Cohu may engage, as necessary, an outside solicitor in connection with this proxy solicitation. We will reimburse brokerage firms and other custodians for their reasonable out-of-pocket expenses for forwarding the proxy materials to you.

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IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 8, 2019

This proxy statement and Cohu’s Fiscal Year 2018 Annual Report are both available at www.proxyvote.com.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Cohu’s Amended and Restated Certificate of Incorporation divides the directors into three classes whose terms expire at successive annual meetings over a period of three years. One class of directors is elected for a term of three years at each annual meeting with the remaining directors continuing in office. At the Meeting, two Class 3 directors are standing for re-election for a term expiring in 2022. The shares represented by proxies in the accompanying form will be voted by the proxy holders for the election of the nominees named below. Should the nominee decline or become unable to accept nomination or election, which is not anticipated, the proxies will be voted for such substitute nominee as may be designated by a majority of the Board of Directors.

Mr. David G. Tacelli, currently a Class 3 director, is not standing for re-election, and his term will expire at the Meeting. Each of the two director nominees currently serves as a member of the Board, and there is no family relationship between the nominees, other directors or any of Cohu’s NEOs.

The following biographies describe the skills, qualities, attributes, and experience of the nominees that led our Board to determine that it is appropriate to nominate these directors.

Required Vote

Nominees that receive a majority of the votes cast for such nominee’s election (meaning the number of shares voted “For” a nominee must exceed the number of shares voted “Against” such nominee) will be elected as Directors. *Brokers do not have discretion to vote on this proposal without your instruction. If you do not instruct your broker how to vote on this proposal, your broker will deliver a non-vote on this proposal.*

Recommendation of the Board

The Board of Directors unanimously recommends a vote “FOR” the nominees named below.

Directors Whose Term Expires in 2022 (if elected) – Class 3

Steven J. Bilodeau, Director since 2009, age 60

Business Experience and Other Directorships

Mr. Bilodeau is the retired President and Chief Executive Officer of SMSC, a semiconductor manufacturer, where he served from 1999 until 2008. Mr. Bilodeau has been a director of Maxwell Technologies since May 2016 and was appointed Chairperson in May 2017. Mr. Bilodeau also served as a director of SMSC from 1999 until 2012, and as SMSC's Chairperson of the Board from 2000 until 2012. Mr. Bilodeau also previously served as a director of NuHorizons Electronic Corp., Conexant Systems, Inc. and Gennum Corporation.

Experience, Qualifications and Attributes

We believe Mr. Bilodeau's qualifications to sit on our Board include his more than thirty years of executive experience in the high technology and semiconductor industries and his knowledge of international operations, business strategy and corporate governance. Mr. Bilodeau was first appointed Lead Independent Director of the Board in May 2018. Mr. Bilodeau qualifies as an "audit committee financial expert" under SEC guidelines.

Directors Whose Term Expires in 2022 (if elected) - Class 3 (continued)
James A. Donahue, Director since 1999 (non-executive Director since 2015), age 70

Business Experience and Other Directorships

Mr. Donahue has been the non-executive Chairperson of Cohu since December 24, 2015. Prior to this he served as Executive Chairperson of Cohu from December 28, 2014 to December 24, 2015, and as Chairperson of the Board from 2010 until 2014. Mr. Donahue was President and Chief Executive Officer of Cohu from June 2000 to December 2014, and President and Chief Operating Officer of Cohu from 1999 to 2000. He also served concurrently as President of Delta Design, Inc., a wholly owned subsidiary of Cohu from 1983 to 2010. Mr. Donahue served as a director of SMSC from 2003 until 2012.

Experience, Qualifications and Attributes

We believe Mr. Donahue's qualifications to sit on our Board include his more than thirty years of executive experience in the semiconductor equipment industry and broad knowledge of business development and strategy, corporate governance and operations.

INFORMATION CONCERNING OTHER DIRECTORS NOT STANDING FOR ELECTION

Directors Whose Term Expires in 2020 - Class 1
William E. Bendush, Director since 2011, age 70

Business Experience and Other Directorships

Mr. Bendush is the retired Senior Vice President and Chief Financial Officer of Applied Micro Circuits Corporation (AMCC), a communications semiconductor company where he served from 1999 to 2003. Mr. Bendush was a director of Microsemi Corp. from 2003 until the company was acquired in May 2018, and previously was a director of Conexant Systems, Inc.

Experience, Qualifications and Attributes

We believe Mr. Bendush's qualifications to sit on our Board include his executive experience in the semiconductor industry and his experience with financial accounting matters for complex global organizations as well as his knowledge of business strategy. Mr. Bendush qualifies as an "audit committee financial expert" under SEC guidelines.

Directors Whose Term Expires in 2020 (continued) - Class 1
Robert L. Ciardella, Director since 2003, age 66

Business Experience and Other Directorships

Mr. Ciardella is the founder and retired Chief Executive Officer of AdvanJet, Inc. (a subsidiary of Graco, Inc.) and served in that role from June 2010 to January 2019. AdvanJet designs and manufactures advanced micro-dispensing equipment. Mr. Ciardella is also the founder and retired President of Asymtek (a subsidiary of Nordson Corporation) where he worked from 1983 until 2006. Asymtek designs, develops, manufactures and sells semiconductor and circuit board assembly equipment.

Experience, Qualifications and Attributes

We believe Mr. Ciardella's qualifications to sit on our Board include his more than thirty years of executive experience in the semiconductor equipment industry, including his knowledge of operations, product development and business strategy.

Ritu C. Favre, Director since 2019, age 50

Business Experience and Other Directorships

Ms. Favre currently serves as Chief Executive Officer of NEXT Biometrics ASA (Oslo Bors: NEXT), a supplier of fingerprint recognition sensors, a position she has held since February 2017. She previously served as Senior Vice President and General Manager, Biometrics Products Division at Synaptics Incorporated from June 2014 to October 2016. Prior to Synaptics, she was Vice President and subsequently Senior Vice President and General Manager, RF Division at Freescale Semiconductor, Inc. from October 2010 to 2014. She also held several product, operations and supply chain management positions at Freescale and Motorola, Inc. from 1988 until 2010.

Experience, Qualifications and Attributes

We believe Ms. Favre's qualifications to sit on our Board include her executive experience in the semiconductor industry, including her knowledge of operations, product development and business strategy.

Directors Whose Term Expires in 2021 - Class 2
Andrew M. Caggia, Director since 2014, age 70

Business Experience and Other Directorships

Mr. Caggia is the retired Senior Vice President and Chief Financial Officer of Standard Microsystems Corporation (SMSC), where he worked from 2000 until his retirement in 2006. Mr. Caggia also served as a director of SMSC from 2001 until its purchase by Microchip Technology Incorporated in 2012. Prior to SMSC, Mr. Caggia was Senior Vice President and Chief Financial Officer of General Semiconductor, Inc. from 1997 to 2000.

Experience, Qualifications and Attributes

We believe Mr. Caggia's qualifications to sit on our Board include his executive experience in the semiconductor industry and his experience with financial accounting matters for complex global organizations as well as his knowledge of business strategy. Mr. Caggia qualifies as an "audit committee financial expert" under SEC guidelines.

Directors Whose Term Expires in 2021 - Class 2 (continued)
Luis A. Müller, Director since 2014, age 49

Business Experience and Other Directorships

Dr. Müller has been the President and Chief Executive Officer of Cohu since December 28, 2014. His previous roles at Cohu include serving as President of Cohu's Semiconductor Equipment Group ("SEG") from 2011 to 2014; Managing Director of Rasco GmbH from 2009 to 2011; Vice President of Delta Design's High Speed Handling Group from 2008 to 2009; and Director of Engineering at Delta Design from 2005 to 2008. Prior to joining Cohu, Dr. Müller spent nine years at Teradyne Inc., where he held management positions in engineering and business development.

Experience, Qualifications and Attributes

We believe Dr. Müller's qualifications to sit on our Board include his more than twenty years of experience in the semiconductor equipment industry, broad knowledge of business development and strategy, semiconductor technologies, corporate governance and international operations.

Jorge L. Titinger, Director since 2018, age 57

Business Experience and Other Directorships	***Experience, Qualifications and Attributes***
Mr. Titinger was President and Chief Executive Officer of Silicon Graphics International Corp. ("SGI") from February 2012 to November 2016. After SGI was acquired by Hewlett Packard Enterprise, Mr. Titinger founded Titinger Consulting, a firm focused on providing strategy, corporate transformation, and	We believe Mr. Titinger's qualifications to sit on our Board include his board and executive level experience in the automatic test equipment and semiconductor capital equipment industries.

culture advice to its clients. Mr. Titinger also served as President and Chief Executive Officer of Verigy Ltd. (“Verigy”) from January 2011 until October 2011, as its President and Chief Operating Officer from July 2010 to January 2011, and as its Chief Operating Officer from June 2008 to July 2010. Prior to his service at Verigy, Mr. Titinger held executive positions with FormFactor, Inc. from 2007 to 2008, and KLA-Tencor Corporation from 2002 to 2007. Mr. Titinger served as a director of Xcerra Corporation from August 2012 until it was acquired by Cohu on October 1, 2018. Mr. Titinger also currently serves as a director of CalAmp Corp., a position he has held since June 2015; and as a director of Hercules Capital, Inc., a position he has held since October 2017.

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PROPOSAL NO. 2

ADVISORY VOTE TO APPROVE NAMED EXECUTIVE COMPENSATION

At last year's Meeting, we provided our stockholders with the opportunity to cast an advisory vote regarding the compensation of our NEOs as disclosed in the proxy statement for the 2018 Annual Meeting of Stockholders. At our 2018 Annual Meeting, our stockholders approved the proposal, with approximately 96% of the votes cast voting in favor of the proposal.

We value the opinions of our stockholders and will continue to consider the outcome of future say-on-pay votes, as well as feedback received throughout the year, when making compensation decisions for our executive officers, including the NEOs. This year we are again asking our stockholders to vote "**FOR**" the compensation of our NEOs as disclosed in this proxy statement.

Compensation Program and Philosophy

As described under the Compensation Discussion and Analysis section of this proxy statement (the "CD&A"), the Compensation Committee has structured our executive compensation program to achieve the following key objectives:

- to pay for performance;
- to attract, motivate and retain talented executive officers;
- to motivate progress toward Company-wide financial and business objectives while balancing rewards for short-term and long-term performance; and
- to align the interests of our executive officers with those of stockholders.

We urge stockholders to read the CD&A beginning on page 33 of this proxy statement, which describes in more detail how our executive compensation policies and procedures operate and are designed to achieve our compensation objectives, as well as the Summary Compensation Table and other related compensation tables and narrative, which provide detailed information on the compensation of our NEOs. The Compensation Committee and the Board of Directors believe that the policies and procedures articulated in the CD&A are effective in achieving our goals and that the compensation of our NEOs reported in this proxy statement has contributed to the Company's recent and long-term success.

Required Vote

A majority of the votes cast is required to approve Proposal No. 2. *Brokers do not have discretion to vote on this proposal without your instruction. If you do not instruct your broker how to vote on this proposal, your broker will deliver a non-vote on this proposal.*

Recommendation of the Board

For the above reasons, we are asking our stockholders to indicate their support for the compensation of our NEOs as described in this proxy statement by voting in favor of the following resolution:

“RESOLVED, that the stockholders of Cohu approve, in a non-binding vote, the compensation of the Company’s NEOs as disclosed pursuant to the CD&A, the tabular disclosure regarding such compensation, and the accompanying narrative disclosure set forth in the proxy statement relating to the Company’s 2019 Annual Meeting of Stockholders.”

Even though this say-on-pay vote is advisory and therefore will not be binding on the Company, the Compensation Committee and the Board value the opinions of our stockholders. Accordingly, to the extent there is a significant vote against the compensation of our NEOs, we will consider our stockholders’ concerns and the Compensation Committee will evaluate what actions may be necessary or appropriate to address those concerns.

The Board of Directors unanimously recommends that you vote “FOR” approval, on an advisory basis, of the resolution on executive compensation.

PROPOSAL NO. 3

APPROVAL OF AMENDMENTS TO THE COHU, INC. 2005 EQUITY INCENTIVE PLAN

We are asking stockholders to approve amendments to our 2005 Equity Incentive Plan (the "2005 Plan") to (i) increase the shares of common stock available for issuance under the 2005 Plan by 2,000,000 and (ii) eliminate a sublimit on the aggregate number of shares that may be issued under the 2005 Plan pursuant to restricted stock, restricted stock units ("RSUs"), performance shares or performance unit awards (together, the "2005 Plan Amendments"). Our Board recommends stockholders approve the 2005 Plan Amendments to promote our long-term growth and profitability by aligning the interests of our key employees with those of other stockholders and providing additional incentives to enhance stockholder value.

Our Board believes that the Company's success is due to its highly talented employee base and that future success depends on our ability to continue attracting and retaining high-caliber employees. Our ability to grant equity awards is a necessary and powerful recruiting and retention tool to maintain and create stockholder value. Further, with the acquisition of Xcerra Corporation ("Xcerra") in 2018, our shares outstanding increased approximately 40% and our number of employees has nearly doubled. Apart from our broad-based 1997 Employee Stock Purchase Plan (see Proposal No. 4 in this proxy statement), the 2005 Plan is our only active employee equity incentive plan. As a result, we believe that the current authorized number of shares under the 2005 Plan is completely inadequate to provide reasonable incentives within a much larger company and to a much larger pool of management. In addition, the sublimit on the maximum number of shares that may be issued out of the overall share authorization under the 2005 Plan pursuant to restricted stock and other full-value awards is now an unnecessary impediment to operation of the 2005 Plan because our current practice is to provide equity incentives solely in the form of full-value awards. Non-approval of the 2005 Plan Amendments may compel us to increase the cash component of employee compensation because the Company would need to replace components of compensation previously delivered through equity awards.

In connection with our share-based compensation programs, we are committed to using equity incentive awards prudently and within reasonable limits. We closely monitor our share award annual "burn rate." Our annual burn rate is determined by dividing a) two-times the number of our common shares subject to "full-value" time-based awards we grant during a fiscal year (currently all in the form of RSUs) and the performance share units ("PSUs") that are earned and become vested based on the achievement of the applicable performance goals during the fiscal year by b) the weighted average number of our shares of common stock outstanding during that fiscal year. We do not include deferred stock unit awards issued in lieu of cash compensation of equal value in determining the burn rate illustrated in the following table.

Fiscal Year	Options	RSUs Granted	PSUs Vested	Burn Rate

	Granted			Total RSUs Granted and PSUs Vested	Weighted Average Common Share Outstanding	
2018	0	292,185[1]	40,640	332,825	31,775,826	2.09%
2017	0	353,391	186,146	539,537	27,835,988	3.88%
2016	0	471,225	172,053	643,278	26,659,258	4.83%
3-Year Average	0	372,267	132,946	505,213	28,757,024	3.51%

[1] Excludes 529,995 assumed RSUs issued to Xcerra employees which, by its terms, do not reduce the shares available to grant under the 2005 Plan.

In determining the number of shares to request for approval under the 2005 Plan Amendments, our Compensation Committee considered various factors, including our recent share usage, anticipated hiring needs in the next two years, the addition of approximately 1,600 employees with the Xcerra acquisition, potential dilution, our current stock price, recent experiences in the equity awards expected by new hire candidates, and general guidance from institutional proxy advisory firms, such as ISS, that our stockholders might consider in evaluating the 2005 Plan Amendment. After reviewing this information, our Compensation Committee decided to request that our stockholders approve an additional 2,000,000 shares for issuance under the 2005 Plan.

Based on our current equity award practices and the significant increase in employees resulting from the Xcerra acquisition, the Compensation Committee estimates that the additional shares that would be authorized by the 2005 Plan Amendments may be sufficient to provide us with an opportunity to grant equity awards for approximately 3 to 4 years. Circumstances that could alter this estimate include the future price of our common shares, the mix of options and full-value awards provided as long-term incentive compensation, grant amounts provided by our competitors, payout of performance-based awards in excess of target in the event of superior performance, hiring activity, and promotions during the next few years.

Our Board adopted the 2005 Plan Amendments on March 26, 2019, subject to approval by our stockholders. If stockholders do not approve the 2005 Plan Amendments, the maximum number of shares that may be issued under the 2005 Plan will not be increased and the current sublimit on the maximum number of shares that may be issued pursuant to restricted stock, restricted stock units, performance shares or performance unit awards will not be eliminated. A summary of the principal provisions of the 2005 Plan, as amended, is set forth below. The summary is qualified by reference to the full text of the 2015 Plan, a copy of which is attached as **Appendix A** to this Proxy Statement.

Highlights of the 2005 Plan

The 2005 Plan, as amended, contains a number of provisions that we believe are consistent with best practices in equity compensation and which protect the stockholders' interests, as described below.

No evergreen authorization. The 2005 Plan does not have an evergreen provision, which would have permitted an annual increase in the share pool without further stockholder approval.

Gross share counting. The 2005 Plan generally provides for gross share counting. The number of shares remaining available for grant under the 2005 Plan is reduced by the gross number of shares subject to options and stock appreciation rights settled on a net basis, and any shares withheld for taxes in connection with the vesting or settlement of any award will not again be available for the future grant of awards. Further, any shares of our common stock we repurchase in the open market with option exercise proceeds will not increase the maximum number of shares that may be issued under the 2005 Plan.

Individual award limits. The 2005 Plan limits the maximum number of shares for which share-denominated awards may be granted to any employee in any fiscal year (or earned for each fiscal year contained in a performance period) and the maximum dollar amount that an employee may earn for each fiscal year contained in a performance period under a cash-denominated award.

Minimum vesting. The 2005 Plan requires each award to have a minimum vesting period of one year, except for 5% of the aggregate number of shares authorized for issuance under the 2005 Plan, or if vesting is accelerated upon a participant's death or disability or in connection with a change in control.

No automatic vesting upon a change in control. The 2005 Plan does not provide for automatic acceleration of award vesting upon a change in control. An acquiring corporation may assume, continue or substitute new awards for outstanding awards, and if it does so, the vesting of the outstanding awards will generally not accelerate on the change in control. The vesting of awards that are not assumed, continued or replaced by a publicly held corporation will be accelerated. The plan administrator has the discretion to accelerate the vesting of outstanding awards or to require that participants exchange outstanding stock-based awards for a payment in cash.

Prohibition on repricing. The 2005 Plan prohibits the repricing of options or stock appreciation rights without the approval of our stockholders, including the cancellation and replacement of options or stock appreciation rights with a grant of options or stock appreciation rights having lower exercise prices, a grant of full-value awards or payments in cash.

No discounted options or stock appreciation rights. Options and stock appreciation rights must have an exercise price or base price at or above the fair market value per share of our common stock on the date of grant.

No tax gross-ups. The 2005 Plan does not provide for any tax gross-ups.

No liberal change-in-control definition. Under the 2005 Plan, a change in control occurs upon the consummation of the transaction rather than the announcement or stockholder approval of the transaction.

Limitation on dividends and dividend equivalents. Any dividends or dividend equivalents payable in connection with an award will be subject to the same restrictions as the underlying award and will not be paid until and unless such award vests or is settled, if later.

Summary of the 2005 Plan

The following summary of the 2005 Plan, as amended, is qualified in its entirety by the specific language of the 2005 Plan, as amended, a copy of which has been filed with the SEC and is available to any stockholder upon request.