

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996

OR

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

COMMISSION FILE NUMBER 1-4298

COHU, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	95-1934119
(State or other jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)
5755 KEARNY VILLA ROAD, SAN DIEGO, CALIFORNIA	92123
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (619) 277-6700

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act: COMMON STOCK, \$1.00
PAR VALUE

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

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

The aggregate market value of voting stock held by nonaffiliates of the
registrant was approximately \$205,958,000 as of March 7, 1997. Shares of common
stock held by each officer and director and by each person or group who owns 5%
or more of the outstanding common stock have been excluded in that such persons
or groups may be deemed to be affiliates. This determination of affiliate status
is not necessarily a conclusive determination for other purposes.

As of March 7, 1997, the Registrant had 9,380,861 shares of its \$1.00 par
value common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part I, Part II and Part IV incorporate certain information by reference
from the Annual Report to Stockholders for the year ended December 31, 1996.
Part III incorporates certain information by reference from the Proxy Statement
for the 1997 Annual Meeting of Stockholders.

ITEM 1. BUSINESS

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, and is subject to the Safe Harbor provisions created by that statute. Such statements are subject to certain risks and uncertainties, including but not limited to those discussed herein and, in particular, under the caption "Business Risks and Uncertainties" that could cause actual results to differ materially from those projected.

A predecessor of Cohu, Inc. (the "Company" or "Cohu") was incorporated under the laws of California in 1947 as Kalbfell Lab., Inc. and commenced active operations in the same year. Its name was changed to Kay Lab in 1954. In 1957 the Company was reincorporated under the laws of the State of Delaware as Cohu Electronics, Inc. and in 1972 its name was changed to Cohu, Inc.

The Company operates in two industry segments. Semiconductor test handling equipment used in the final test of integrated circuits is designed, manufactured and sold by the Company's Delta Design and Daymarc subsidiaries to semiconductor manufacturers throughout the world and accounted for approximately 79% of consolidated net sales in 1996. The television and other equipment segment includes electronic products used in electronic imaging, surveillance, detection and microwave communication that are manufactured and sold to government agencies, original equipment manufacturers, contractors, distributors and consumers throughout the world. The Company conducts operations in these two segments through one division and four subsidiaries.

On June 22, 1994, the Company acquired Daymarc Corporation, a privately-held manufacturer of gravity feed semiconductor test handling equipment that complements the pick and place test handling equipment manufactured by Delta Design. The semiconductor test handling equipment segment includes the results of Delta Design and Daymarc.

The television and other equipment segment includes the results of the Electronics Division, Fisher Research Laboratory, Inc. ("FRL") and Broadcast Microwave Services, Inc. ("BMS").

FINANCIAL INFORMATION BY INDUSTRY SEGMENT AND EXPORT SALES

Financial information on industry segments and export sales for each of the last three years is included on pages 3 (Selected Financial Data) and 13 (Note 7) in the 1996 Annual Report to Stockholders and is incorporated herein by reference.

SEMICONDUCTOR TEST HANDLING EQUIPMENT

Through its Delta Design and Daymarc subsidiaries, Cohu is the largest U.S. based and one of the world's largest suppliers of semiconductor test handling equipment. Test handlers are electromechanical systems designed to automatically handle, temperature condition, contact and sort integrated circuits (ICs) during the IC test process. Testers are specialized, computer controlled electronic systems that perform electronic evaluation of ICs, including proper functionality, voltage/current characteristics and critical timing parameters. Testing is used to determine the quality and performance of the packaged IC prior to shipment to customers. Testers are designed to test specific IC types, such as microprocessor, logic, DRAM or mixed signal, without regard to the package used to house the IC. On the other hand, the package, rather than the circuit type, is critical to the test handler, which is connected to the tester and automates the flow of ICs through the test process.

The Company designs, manufactures, markets and services IC test handling equipment from facilities in San Diego, California (Delta Design) and Littleton, Massachusetts (Daymarc). Sales, service and technical personnel are located throughout the U.S., Asia and Europe. Most test handlers use one of two handling technologies to transport ICs: gravity-feed or pick-and-place. Generally, the preferred handling approach is dictated by the IC package type. ICs with leads on only two sides, such as dual-in-line and Small Outline (SOIC), are usually handled in gravity feed equipment. ICs with leads on all four sides, such as the Quad Flat Pack and certain ICs with leads on two sides, such as the TSOP, are typically run in pick-and-place systems. Delta Design's systems utilize pick-and-place handling approaches while Daymarc's equipment employs gravity feed techniques. The two product lines are complementary, with effectively no overlap.

As a significant portion of IC test is performed at hot and/or cold temperatures, many of the Company's test handlers are designed to provide a controlled test environment over the range -60 degrees C to +160 degrees C. Both Delta Design and Daymarc are recognized throughout the industry for their expertise in hot/cold test handling. In addition to temperature capability, other key factors in the design of test handlers are equipment speed, flexibility, parallel test capability and size. Handlers are complex, electromechanical systems which are used continuously in high production environments, and many are in service twenty-four hours per day, seven days a week. Handler "uptime" is a critically important issue to customers and the availability of trained technical support personnel is a key competitive factor in the marketplace. For these reasons, the Company employs direct sales and service engineers wherever possible, including in Southeast Asia where over 50% of IC testing takes place.

DELTA DESIGN

Through the use of IC package dedication kits, Delta Design's pick-and-place test handlers are capable of accommodating virtually any semiconductor package type. This flexibility is a key requirement of semiconductor manufacturers, who must continuously produce new IC package types to meet the needs of their customers and the requirements of IC design engineers.

Historically, most pick-and-place handlers have been used in logic test applications, where the transition in packaging technology first occurred. Because of the relatively short test times of logic devices, handler index time, or the idle time between test cycles, is critical. Two of Delta's pick-and-place handlers are believed to have among the fastest index times in the industry.

Increasingly, the shift in packaging is taking place in memory packages, as well. Due to the longer test times associated with memory testing, simultaneous testing of multiple devices (parallel testing) is required. Delta has successfully adapted several of its handlers to test up to eight devices in parallel and is developing systems capable of testing 16 or more devices in parallel.

The Delta Turbo Flex(TM), available in three models with various levels of automation, provides hot/cold test capability and versatility in IC package and media (tray or tube) handling. The "Flex" is considered an industry workhorse, and more Flexes have been sold than any other pick-and-place test handler. Through Delta's continuous product improvement process, the Flex has been successfully adapted to meet the evolving needs of IC manufacturers.

The Model 2040, or RFS(TM), is a fast-index time pick-and-place handler, designed for high production applications. The handler's large environmental storage capacity enables uninterrupted operation in short test applications and parallel testing of up to four devices. The RFS(TM) utilizes a patented contactor indexing mechanism to achieve an index time of approximately 500 milliseconds.

The Model 1688 is an ambient pick-and-place handler, which uses the same fast contactor indexing mechanism as the RFS(TM). The small size footprint of only eleven square feet, combined with the high speed and dependable operation of this handler, make it a highly-cost effective solution for test applications where environmental capability is not required.

DAYMARC

Daymarc, which was acquired by Cohu in June 1994, was established in 1959 and was the first equipment company to introduce a gravity feed, fully automatic test handler. Daymarc relocated during March 1996 to a larger facility in Littleton, Massachusetts approximately 30 miles from Boston. The Littleton facility has 102,000 square feet and is twice the size of the former facility. The new facility, with expansion options for future growth, will support Daymarc's needs for the foreseeable future.

Daymarc test handlers are designed to deliver high throughput, maximize operator productivity and increase yields through proprietary, high performance contacting technology.

Daymarc manufactures three lines of test handlers; the 717 Series, 3000 Series and 4000 Series. The 717 Series test handlers are designed specifically for SOIC packages. The small dimensions and high speed applications of the SOIC package require a handler with minimal transition distances, high performance contacting and automation features to reduce the need for operator intervention. The 717 ambient and tri-temperature handlers feature index times of 350 and 500 milliseconds, respectively. Changeover for a different device package requires less than 30 minutes.

The 3000 Series is available in single, dual/quad and thirty-two site configurations. These handlers can be reconfigured with device dedication kits to accommodate a wide range of package types at throughput rates up to 4,200 units per hour (UPH). The 3000 Series handlers provide tri-temperature operation and input/output automation for increased productivity.

The 4000 Series handlers combine high speed with multi-site capability. The first in the Series, the 4100, may operate at speeds up to 18,000 UPH in dual or quad site configurations. The 4100 is currently available as an ambient only handler and the Company intends to eventually introduce a tri-temperature version with other configurations. The 4100, which occupies only seven square feet of floor space, is believed to be one of the fastest handlers available on the market.

In 1996 the semiconductor test handling equipment segment accounted for 79% of consolidated net sales and 92% of consolidated operating profit. In 1995 this segment accounted for 82% of consolidated net sales and 95% of consolidated operating profit. In 1994 the segment accounted for 71% of consolidated net sales and 89% of consolidated operating profit.

TELEVISION AND OTHER EQUIPMENT

The Electronics Division of the Company has been a designer, manufacturer and seller of closed circuit television ("CCTV") cameras and systems for over 40 years. The customer base is broadly distributed between machine vision, scientific imaging and security/surveillance markets. The current product line represents an extensive array of indoor and outdoor CCTV cameras as well as camera control equipment. To support its camera lines, the Electronics Division offers a wide selection of accessories including monitors, lenses and camera test equipment.

FRL designs, manufactures and sells metal detectors and related underground detection devices for consumer and industrial markets. All products are sold under the Fisher M-Scope label. Industrial instruments include pipe and cable locators, water leak detectors, property marker locators and instruments for finding reinforcing bars in concrete. Fisher's new XLT-20 water leak detector can detect the sound of escaping water and pinpoint small leaks in buried pipes to a depth of six feet.

BMS manufactures microwave radio equipment, antenna systems and associated equipment. These products are used in the transmission of telemetry, data, video and audio signals. Customers include government test ranges, law enforcement agencies, unmanned air vehicle programs and television broadcasters.

In 1996 the television and other equipment segment accounted for 21% of consolidated net sales and 8% of consolidated operating profit. In 1995 television and other equipment accounted for 18% of consolidated net sales and 5% of consolidated operating profit. In 1994 television and other equipment accounted for 29% of consolidated net sales and 11% of consolidated operating profit.

CUSTOMERS

SEMICONDUCTOR TEST HANDLING EQUIPMENT

The Company's customer base includes companies that manufacture semiconductor devices primarily for internal use and companies that manufacture devices for sale to others. Repeat sales to existing customers represent a significant portion of the Company's sales in this business segment. The Company believes that its installed customer base represents a significant competitive advantage.

The Company relies on a limited number of customers for a substantial percentage of its net sales. In 1996 Micron Technology and Motorola represented 14% and 12%, respectively, of the Company's net sales. In 1995 Motorola and Micron Technology each accounted for 17% of the Company's net sales. In 1994 Motorola and Micron Technology represented 22% and 10%, respectively, of the Company's net sales. The loss of or a significant reduction in orders by either of these or other significant customers not compensated for by other customer orders, including reductions due to market, economic or competitive conditions in the semiconductor industry, would adversely affect the Company's business and results of operations.

TELEVISION AND OTHER EQUIPMENT

The Company's customer base in this industry segment is diverse and includes government agencies, original equipment manufacturers, contractors, distributors and consumers throughout the world. No single customer of this segment accounted for 10% or more of the Company's consolidated net sales in 1996, 1995 or 1994.

Contracts, including subcontract work, with U.S. Government agencies accounted for net sales of \$4.8 million, \$4.5 million and \$5.6 million in 1996, 1995 and 1994, respectively. Such contracts are frequently subject to termination provisions at the convenience of the Government.

MARKETING

The Company markets its products worldwide through a combination of direct sales force and independent sales representatives. In a geographic area where the Company believes there is sufficient sales potential, the Company maintains sales offices staffed with its own sales personnel. The Company maintains U.S. sales offices for the semiconductor equipment business in Santa Clara, California and Austin, Texas. In 1993, a foreign subsidiary was formed in Singapore to handle the sales and service requirements of semiconductor manufacturers located in Southeast Asia. In 1995 a branch of the Singapore sales and service subsidiary was opened in Taipei, Taiwan. The sales in Europe are derived primarily through sales representatives.

COMPETITION

The semiconductor equipment industry is intensely competitive and is characterized by rapid technological change and demanding worldwide service requirements. Significant competitive factors include product performance, price and reliability, customer support and installed base of products. While the Company believes it is the largest U.S. based supplier of semiconductor test handling equipment it faces substantial competition in the U.S. and throughout the world. The Japanese market for this equipment is large and represents a significant percentage of the worldwide market. During the last five years the Company has had limited sales to Japanese customers who have historically purchased test handling equipment from Japanese suppliers or their affiliates. Some of the Company's competitors have substantially greater financial, engineering, manufacturing and customer support capabilities than the Company. To remain competitive the Company believes it will require significant financial resources to offer a broad range of products, maintain customer support and service centers worldwide and to invest in research and development of new products. Failure to introduce new products in a timely manner or the introduction by competitors of products with perceived or actual advantages could result in a loss of competitive position and reduced sales of existing products. No assurance can be given that the Company will continue to compete successfully in the U.S. or throughout the world.

The Company's products in the Television and Other Equipment Segment are sold in highly competitive markets throughout the world, where competition is on the basis of price, product integration with customer requirements, service and product quality and reliability. Many of the Company's competitors are divisions or segments of large, diversified companies with substantially greater financial, engineering, marketing, manufacturing and customer support capabilities than the Company. No assurance can be given that the Company will continue to compete successfully in this business segment.

BACKLOG

The dollar amount of backlog of the Company as of December 31, 1996 was \$33.9 million as compared to \$45.4 million at December 31, 1995. Of these amounts, \$23.1 million (\$37.8 million in 1995) was in semiconductor test handling equipment and \$10.8 million (\$7.6 million in 1995) was in television and other

equipment. Virtually all backlog is expected to be shipped within the next twelve months. Due to the possibility of customer changes in delivery schedules, cancellation of orders and potential delays in product shipments, the Company's backlog as of any point in time may not be representative of actual sales in any future period. All orders are subject to cancellation or rescheduling by the customer with limited penalty. There is no significant seasonal aspect to the business of the Company.

MANUFACTURING AND RAW MATERIALS

The Company's manufacturing activities take place in San Diego, California (BMS, Delta Design and the Electronics Division), Littleton, Massachusetts (Daymarc) and Los Banos, California (FRL). Many of the components and subassemblies are standard products, although certain items are made to Company specifications. Certain components are obtained or are available from a limited number of suppliers. The Company seeks to reduce its dependence on sole and limited source suppliers, however in some cases the complete or partial loss of certain of these sources could have at least a temporary negative effect on the Company's operations while it attempted to locate and qualify replacement suppliers.

PATENTS AND TRADEMARKS

The Company protects its proprietary technology through various intellectual property laws. However, the Company believes that, due to the rapid pace of technological change in the semiconductor equipment industry, the successful manufacture and sales of its products generally depend upon its experience, technological know-how, manufacturing and marketing skills and speed of response to sales opportunities, rather than on the legal protection afforded to any one or more items of intellectual property, such as patents, trademarks, copyrights and trade secrets. In the absence of patent protection the Company may be vulnerable to competitors who attempt to copy or imitate the Company's products or processes. Although the Company believes its intellectual property has value (and includes trademark rights and trade names other than Cohu), and the Company has in the past and will in the future take actions it deems appropriate to protect such property from misappropriation, there can be no assurance such actions will provide meaningful protection from competition. Protecting the Company's intellectual property rights or defending against claims brought by other holders of such rights, either directly against the Company or against customers the Company has agreed to indemnify, would likely be expensive and time consuming and could have a material adverse effect on the Company and its operations.

RESEARCH AND DEVELOPMENT

Certain of the markets served by the Company, particularly the semiconductor equipment industry, are characterized by rapid technological change. Research and development activities are carried on in the various subsidiaries and division and are directed toward development of new products and equipment, as well as enhancements to existing products and equipment. Total research and development expenses were \$14 million in 1996, \$10.2 million in 1995 and \$7.5 million in 1994. Total dollar expenditures in 1996 and 1995 increased primarily due to increased spending for R & D on semiconductor test handling equipment. There was no significant customer-sponsored product development during these years.

The Company works closely with its key customers to make improvements on its existing products and in the development of new products. The Company expects to continue to invest heavily in research and development and must manage product transitions successfully as introductions of new products could adversely impact sales of existing products.

ENVIRONMENTAL LAWS

Compliance with Federal, State and local laws which have been enacted or adopted regulating the discharge of materials into the environment or otherwise relating to the protection of the environment has not had a material effect and is not expected to have a material effect upon the capital expenditures, results of operations or competitive position of the Company.

EMPLOYEES

At December 31, 1996 the Company had approximately 800 employees. None of these employees is covered by a labor union. The Company believes that a great part of its future success will depend on its continued ability to attract and retain qualified employees. Competition for the services of certain personnel is increasing. The Company considers its relations with its employees to be good.

BUSINESS RISKS AND UNCERTAINTIES

The Company's operating results are substantially dependent on the semiconductor test handling equipment business conducted through its Delta Design and Daymarc subsidiaries. This capital equipment business is in turn highly dependent on the overall strength of the semiconductor industry. Historically, the semiconductor industry has been highly cyclical with recurring periods of oversupply, which often have had a significant effect on the semiconductor industry's demand for capital equipment, including equipment of the type manufactured and marketed by the Company. The Company believes that the markets for newer generations of semiconductors may also be subject to similar cycles and downturns such as that experienced in 1996. Reductions in capital equipment investment by semiconductor manufacturers will adversely affect the Company's results of operations.

As is common in the semiconductor equipment industry, the Company relies on a limited number of customers for a substantial percentage of its net sales. The loss of or a significant reduction in orders by these customers would adversely impact the Company's results of operations. Furthermore, the concentration of the Company's revenues in a limited number of large customers may cause significant fluctuations in the Company's future annual and quarterly operating results.

The semiconductor equipment industry is intensely competitive and the Company faces substantial competition from numerous companies throughout the world. Some of these competitors have substantially greater financial, engineering, manufacturing and customer support capabilities than the Company. In addition, there are smaller, emerging semiconductor equipment companies that provide or may provide innovative technology incorporated in products that may compete favorably against those of the Company. The Company expects its competitors to continue to improve the design and performance of their current products and to introduce new products with improved performance capabilities. Failure to introduce new products in a timely manner, the introduction by competitors of products with perceived or actual advantages or disputes over rights of the Company or its competitors to use certain intellectual property or technology could result in a loss of the Company's competitive position and reduced sales of existing products.

Semiconductor equipment and processes are subject to rapid technological change. The Company believes that its future success will depend in part on its ability to enhance existing products and develop new products with improved performance capabilities. The Company expects to continue to invest heavily in research and development and must manage product transitions successfully as introductions of new products could adversely impact sales of existing products. There can be no assurance that future technologies, processes and product developments will not render the Company's current product offerings obsolete or that the Company will be able to develop and introduce new products or enhancements to its existing products in a timely manner to satisfy customer needs or achieve market acceptance.

Due to these and other factors, historical results may not be indicative of results of operations for any future period. In addition, certain matters discussed above are forward-looking statements that are subject to the risks and uncertainties noted herein and the other risks and uncertainties listed from time to time in the Company's filings with the Securities and Exchange Commission that could cause actual results to differ materially from those projected or forecasted. The Company undertakes no obligation to update the information, including the forward-looking statements, in this Annual Report on Form 10-K.

ITEM 2. PROPERTIES

Certain information concerning the Company's principal properties at December 31, 1996 identified by business segment is set forth below:

LOCATION - - - - -	APPROXIMATE SQ. FOOTAGE - - - - -	OWNERSHIP - - - - -
Littleton, MA. (1)	102,000	Owned
San Diego, CA. (1)	52,000	Owned
San Diego, CA. (1)	52,000	Owned
San Diego, CA. (2)	52,000	Owned
San Diego, CA. (2)	15,000	Leased
Los Banos, CA. (2)	23,000	Owned

(1) Semiconductor test handling equipment

(2) Television and other equipment

In addition to the locations listed above the Company leases other properties for sales offices in various locations including Austin, Texas, Santa Clara, California, Singapore and Taipei, Taiwan. The Company believes its facilities are suitable for their respective uses and are adequate for the Company's present needs.

In May 1996 the Company acquired approximately 12 acres of land in Poway, California. The land is being held for future expansion needs although no such expansion is currently contemplated.

ITEM 3. LEGAL PROCEEDINGS

The Company is not presently a party to any material legal proceedings, other than ordinary routine litigation incidental to the business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

EXECUTIVE OFFICERS AND SIGNIFICANT EMPLOYEES OF THE REGISTRANT

The following sets forth the names and ages of and the positions and offices held by all executive officers and significant employees of the Company as of March 7, 1997:

Name - - - - -	Age - - -	Position - - - - -
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EXECUTIVE OFFICERS:

Charles A. Schwan	57	President & Chief Executive Officer, Director
John H. Allen	45	Vice President, Finance & Chief Financial Officer, Secretary

SIGNIFICANT EMPLOYEES:

Melvyn W. Bosch	58	President, Daymarc
James M. Brown	59	President, Cohu Electronics Division
Graham Bunney	41	President, BMS
James A. Donahue	48	President, Delta Design
James C. Lewellen	57	President, FRL

Mr. Schwan has been employed by the Company since 1971 and became President & Chief Executive Officer on March 1, 1996. Mr. Schwan had been Treasurer since 1972, Vice President, Finance since 1983 and Executive Vice President & Chief Operating Officer since September 1995. Mr. Schwan has been a member of the Board of Directors since 1990 and served as Secretary from 1988 until September 1995.

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

Mr. Bosch has been employed by Daymarc since 1986 and has been President of Daymarc since 1989.

Mr. Brown has been employed by the Cohu Electronics Division since 1980 and has been President of that division since 1983.

Mr. Bunney has been employed by BMS since 1985. Mr. Bunney was a project manager until June 1994, manufacturing manager from June 1994 until January 1996 and was promoted to President of BMS in January 1996.

Mr. Donahue has been employed by Delta Design since 1978 and has been President of Delta Design since 1983.

Mr. Lewellen has been employed by FRL since 1974 and has been President of FRL since 1979.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Information regarding the market prices of the Company's stock, markets for that stock and the number of stockholders is contained on the inside back cover of the 1996 Annual Report to Stockholders under "Cohu Stock Information". Dividend information is contained on page 3 of the 1996 Annual Report to Stockholders. Such information is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

"Selected Financial Data" on page 3 of the 1996 Annual Report to Stockholders is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 15 and 16 of the 1996 Annual Report to Stockholders is incorporated herein by reference.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company, including the report thereon of Ernst & Young LLP, on pages 9 - 14 and the unaudited Quarterly Financial Data on page 3 of the 1996 Annual Report to Stockholders is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors of the Company is set forth under "Election Of Directors" in the Company's Proxy Statement for the 1997 Annual Meeting of Stockholders ("the Proxy Statement"), which information is incorporated herein by reference. Information concerning the executive officers of the Company is included in Part I, on page 8. Information in the Proxy Statement under "Compliance with Section 16(a) of the Securities Exchange Act of 1934" is also incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding the Company's compensation of its executive officers and certain other information is set forth in the Proxy Statement under "Compensation of Executive Officers and Other Information" and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management is set forth in the Proxy Statement under "Security Ownership Of Certain Beneficial Owners and Management" and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions is set forth in the Proxy Statement under "Certain Relationships and Related Transactions" and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The financial statements listed in the accompanying index to financial statements and financial statement schedules are incorporated herein by reference as part of this Annual Report on Form 10-K.

2. Financial Statement Schedules

See index to financial statements and financial statement schedules.

3. Exhibits

The exhibits listed in the accompanying index to exhibits are filed or incorporated herein by reference as part of this Annual Report on Form 10-K.

(b) Reports on Form 8-K

On December 12, 1996, the Company filed a Form 8-K reporting under Item 5, "Other Events", the adoption of a Rights Agreement.

COHU, INC.
INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES

(Item 14(a))

	Pages incorporated from Annual Report to Stockholders -----
Consolidated balance sheets at December 31, 1996 and 1995	9
Consolidated statements of income for each of the three years in the period ended December 31, 1996	10
Consolidated statements of cash flows for each of the three years in the period ended December 31, 1996	11
Consolidated statements of stockholders' equity for each of the three years in the period ended December 31, 1996	11
Notes to consolidated financial statements	12 - 14

All schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedules, or because the information required is included in the consolidated financial statements and the notes thereto.

The consolidated financial statements listed in the above index which are included in the Annual Report to Stockholders of Cohu, Inc. for the year ended December 31, 1996 are incorporated herein by reference. With the exception of the pages listed in the above index and the Items referred to in Items 1, 5, 6, 7 and 8 the 1996 Annual Report to Stockholders is not to be deemed filed as part of this report.

COHU, INC.
INDEX TO EXHIBITS
(Item 14(a) 3)

Exhibit - - - - -	Description - - - - -
3.1	Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference from the 1981 Form 10-K, Exhibit 1
3.1(a)	Certificate of Amendment of Restated Certificate of Incorporation of Cohu, Inc.
3.2	Amended and Restated Bylaws, of Cohu, Inc. incorporated herein by reference from the Company's Form 8-K, filed December 12, 1996, Exhibit 3.2
4.1	Rights Agreement dated November 15, 1996, between Cohu, Inc. and ChaseMellon Shareholder Services, L.L.C, as Rights Agent, incorporated herein by reference from the Company's Form 8-K, filed December 12, 1996, Exhibit 4.1
10.1	Cohu, Inc. 1988 Employee Stock Option Plan, incorporated herein by reference from the Company's Proxy Statement for its 1988 Annual Meeting of Stockholders.*
10.2	Description of Cohu, Inc. Executive Incentive Bonus Plan, incorporated herein by reference from the Company's 1990 Form 10-K, Exhibit 10.3*
10.3	Termination Agreement between Cohu, Inc. and Charles A. Schwan, incorporated herein by reference from the Company's 1990 Form 10-K, Exhibit 10.5*
10.4	The Cohu, Inc. 1992 Stock Option Plan, incorporated herein by reference from the Company's Proxy Statement for its 1992 Annual Meeting of Stockholders*
10.5	The Cohu, Inc. 1994 Stock Option Plan, incorporated herein by reference from the Company's Proxy Statement for its 1995 Annual Meeting of Stockholders*
10.6	Agreement of Purchase and Plan of Merger by and among Cohu, Inc., Daymarc Corporation, Cohu Acquisition Corporation, N.J. Cedrone and Melvyn Bosch as of June 16, 1994, incorporated herein by reference from the Company's June 22, 1994 Form 8-K, Exhibit 2.1
10.7	Purchase and Sale Agreement dated October 17, 1995 between Daymarc, Inc. and DOE Partners, L.P. incorporated herein by reference from the Company's Form 10-Q dated September 30, 1995, Exhibit 10.1
10.8	The Cohu, Inc. 1996 Stock Option Plan, incorporated herein by reference from the Company's Proxy Statement for its 1996 Annual Meeting of Stockholders*
10.9	Employment Agreement between Cohu, Inc. and James W. Barnes incorporated herein by reference from the Company's 1996 Form 10-K, Exhibit 10.9*
10.10	Business Loan Agreement between Bank of America National Trust and Savings Association and the Company, as amended May 15, 1996, incorporated herein by reference from the Company's Form 10-Q for the quarter ended June 30, 1996, Exhibit 10.1
10.11	Termination Agreement between Cohu, Inc. and John H. Allen*
10.12	The Cohu, Inc 1996 Outside Directors Stock Option Plan*
10.13	The Cohu, Inc. 1997 Employee Stock Purchase Plan*

COHU, INC.
INDEX TO EXHIBITS
(Item 14(a) 3)

13	1996 Annual Report to Stockholders (Provided for information only except as specifically incorporated by reference)
21	Cohu, Inc. has the following wholly owned subsidiaries: Delta Design, Inc., a Delaware corporation Fisher Research Laboratory, Inc., a Delaware corporation Broadcast Microwave Services, Inc., a Delaware corporation Daymarc, Inc., a Delaware corporation Cohu Foreign Sales Ltd., a Barbados corporation
23	Consent of Ernst & Young LLP, Independent Auditors
27	Financial Data Schedule
*	Management contract or compensatory plan or arrangement

SIGNATURES

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

COHU, INC.

Date: March 14, 1997

By /s/ Charles A. Schwan

Charles A. Schwan
President & 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/ William S. Ivans ----- William S. Ivans	Chairman of the Board	March 14, 1997
/s/ Charles A. Schwan ----- Charles A. Schwan	President & Chief Executive Officer, Director (Principal Executive Officer)	March 14, 1997
/s/ John H. Allen ----- John H. Allen	Vice President, Finance & Chief Financial Officer, Secretary (Principal Financial & Accounting Officer)	March 14, 1997
/s/ J. W. Barnes ----- J. W. Barnes	Director	March 14, 1997
/s/ Harry L. Casari ----- Harry L. Casari	Director	March 14, 1997
/s/ Frank W. Davis ----- Frank W. Davis	Director	March 14, 1997
/s/ Gene E. Leary ----- Gene E. Leary	Director	March 14, 1997

CERTIFICATE OF AMENDMENT
OF
RESTATED CERTIFICATE OF INCORPORATION

Cohu, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Company"),

DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of the Company, resolutions were duly adopted setting forth a proposed amendment of the Restated Certificate of Incorporation of the Company, declaring said amendment to be advisable and calling a meeting of the stockholders of the Company for consideration thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that the Restated Certificate of Incorporation of the Company be amended by changing the first paragraph of Article Fourth so that, as amended, said paragraph shall be and read as follows:

"FOURTH: The total number of shares of all classes of stock which the corporation shall have authority to issue is Twenty-six Million (26,000,000) of which 1,000,000 shares shall constitute Preferred Stock having a par value of \$1.00 per share and 25,000,000 shares shall constitute Common Stock having a par value of \$1.00 per share."

SECOND: That thereafter, pursuant to resolution of its Board of Directors, a special meeting of the stockholders of the Company was duly called and held, upon notice in accordance with Section 222 of the General Corporation law of the State of Delaware, at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Company has caused this certificate to be signed by Charles A. Schwan , its President, and John H. Allen , its Secretary, this 7th day of May , 1996.

By: /s/ Charles A. Schwan

President

ATTEST: /s/ John H. Allen

Secretary

TERMINATION AGREEMENT

This Termination Agreement is executed November 10, 1996 between COHU, INC., a Delaware corporation ("Company") and John H. Allen ("Executive") in light of the following facts:

A. Executive is a key and critically important member of the management of Company upon whose continuing services Company is and will depend for its future growth and prosperity.

B. Company desires to assure itself of the uninterrupted and unimpaired performance of services by Executive in the future. In particular, Company desires that there will be no interference with those services or Executive's loyalty to Company which result from any actual or proposed change of control of Company. Company believes that the interest of Company and its shareholders will best be served by providing Executive with economic assurances which will relieve him of worry about his economic interests in the event of any proposed change of control and thereby permit him to devote his uninterrupted attention to the performance of his duties to Company.

NOW, THEREFORE, IT IS AGREED:

1. "Event" Defined. The term "Event" as used in this Agreement shall mean any one or a combination of the following:

a. A sale by Company of all or substantially all of its assets, whether for money, securities or other consideration.

b. A merger or consolidation of Company with or into any other corporation or business entity (excepting only a wholly owned subsidiary of Company) without regard to whether Company or other party to such transaction is the surviving corporation.

c. The acquisition of beneficial ownership of a majority of the outstanding voting stock of Company by any person or entity or affiliated group of persons and/or entities without regard to whether such stock is held directly or indirectly.

d. A change in the identities of a majority of the directors of Company occurring within a period of thirty (30) consecutive months resulting in whole or in part from the election at one or more meetings of shareholders of persons who are not listed in the Company's proxy statement as management nominees.

e. Any other agreement, happening or device which has substantially the same effect on control of Company as any of the foregoing.

2. "Termination" Defined. The term "Termination" as used in this Agreement shall mean any one or a combination of the following:

a. The discharge of Executive by Company or its successor in interest as the operator of all or substantially all of the business assets of Company for any reason whatsoever, excepting only discharge by reason of the following:

(i) Death of Executive;

(ii) The mental or physical disability of Executive continuing for a period exceeding nine months, which prevents Executive from performing a major portion of his duties;

(iii) For cause consisting of the commission by Executive of a criminal act related to the performance of his duties, the furnishing of proprietary confidential information of Company to a competitor or a potential competitor except in the bona fide belief that such action was for the benefit and best interests of Company;

(iv) Habitual intoxication by alcohol or drugs during working hours;

(v) Habitual neglect of duties not corrected following written notice from Company specifying details thereof;

(vi) Required retirement of Executive at or after the Company's normal retirement age for senior executives, in accordance with established policies applied on a nondiscriminating basis.

b. Resignation of Executive following the occurrence of one or more of the following:

(i) Relocation of the principal place at which Executive's duties are performed to a location outside the County of San Diego, California;

(ii) A reduction in Executive's compensation;

(iii) A change in the benefits or perquisites provided to Executive which is deemed materially adverse by Executive;

(iv) A change in Executive's responsibilities, authorities or functions which is deemed materially adverse by Executive;

(v) A change in Executive's work conditions which is deemed materially adverse by Executive.

3. Payment. In the event that a termination occurs concurrently with or within five (5) years following an Event, forthwith upon such Termination occurring, Company or its successor in interest shall pay to Executive a sum equal to the largest sum of money which would not result in there being an "Excess Parachute Payment" as defined in Section 280G of the Internal Revenue Code as amended to the date of this Agreement. This payment shall be in addition to any and all other benefits to which Executive may be entitled in connection with such termination, including but not limited to, payment for accrued and unused vacation or sick pay.

4. Consideration. This contract is for the purpose of inducing Executive to continue his employment with Company and is in consideration of the services rendered by Executive to Company from and after the date of this Agreement, which consideration Company hereby acknowledges is fair and adequate.

5. Complete Agreement. This constitutes the complete agreement between the parties with respect to its subject matter. It shall not be amended or rescinded except by a further written agreement executed by both parties.

6. Successors. This contract shall inure to the benefit of Executive, his heirs, personal representatives and assigns and shall bind Company and its successors.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written, in accordance with a resolution made and instructions given by the Board of Directors of Cohu, Inc. at a meeting held May 7, 1996.

COHU, INC.

By: /s/ Charles A. Schwan

President & CEO

/s/ John H. Allen

EXECUTIVE

COHU, INC.

1996 OUTSIDE DIRECTORS STOCK OPTION PLAN

1. Purpose. The Cohu, Inc. 1996 Outside Directors Stock Option Plan (the "Plan") is established effective as of the date the Plan is approved by the Board of Directors (the "Effective Date") to create additional incentive for the non-employee directors of Cohu, Inc., a Delaware corporation, and any successor corporation thereto (collectively referred to as the "Company") to promote the financial success and progress of the Company and any present or future parent and/or subsidiary corporations of the Company. For purposes of the Plan, a parent corporation and a subsidiary corporation shall be as defined in sections 424(e) and 424(f) of the Internal Revenue Code of 1986, as amended (the "Code").

2. Administration. The Plan shall be administered by the Board of Directors of the Company (the "Board") and/or by a duly appointed committee of the Board having such powers as shall be specified by the Board. Any subsequent references herein to the Board shall also mean the committee if such committee has been appointed and, unless the powers of the committee have been specifically limited, the committee shall have all of the powers of the Board granted herein, including, without limitation, the power to terminate or amend the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law. The Board shall have no authority, discretion, or power to select the non-employee directors of the Company who will receive options under the Plan, to set the exercise price of the options granted under the Plan, to determine the number of shares of common stock to be granted under option or the time at which such options are to be granted, to establish the duration of option grants, or to alter any other terms or conditions specified in the Plan, except in the sense of administering the Plan subject to the provisions of the Plan. All questions of interpretation of the Plan or of any options granted under the Plan (an "Option") shall be determined by the Board, and such determinations shall be final and binding upon all persons having an interest in the Plan and/or any Option. Any officer of the Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the officer has apparent authority with respect to such matter, right, obligation, or election.

3. Eligibility and Type of Option. Options may be granted only to directors of the Company who, at the time of such grant, are not employees of the Company or of any parent or subsidiary corporation of the Company ("Outside Directors"). Options granted to Outside Directors shall be nonqualified stock options; that is, options which are not treated as having been granted under section 422(b) of the Code.

4. Shares Subject to Option. Options shall be for the purchase of shares of authorized but unissued common stock or treasury shares of common stock of the Company (the "Stock"), subject to adjustment as provided in paragraph 8 below. The maximum number of shares of Stock which may be issued under the Plan shall be One Hundred Thousand (100,000) shares. In the event that any outstanding Option for any reason expires or is terminated and/or shares of Stock subject to repurchase are repurchased by the Company, the shares allocable to the unexercised portion of such Option, or such repurchased shares, may again be subject to an Option grant. Notwithstanding the foregoing, any such shares shall be made subject to a new

Option only if the grant of such new Option and the issuance of such shares pursuant to such new Option would not cause the Plan or any Option granted under the Plan to contravene Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor rule.

5. Time for Granting Options. All Options shall be granted, if at all, within ten years from the Effective Date.

6. Terms, Conditions and Form of Options. Options granted pursuant to the Plan shall be evidenced by written agreements specifying the number of shares of Stock covered thereby, in substantially the form attached hereto as Exhibit A (the "Option Agreement"), which written agreement may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

(a) Automatic Grant of Options. Subject to execution by an Outside Director of an appropriate Option Agreement, options shall be granted automatically and without further action of the Board, as follows:

(i) Each person who is an Outside Director as of the Effective Date, or who is newly elected or appointed as an Outside Director after the Effective Date, shall be granted an Option on the Effective Date, or on the day of such initial election or appointment, as the case may be, to purchase Ten Thousand (10,000) shares of Stock.

(ii) Notwithstanding the foregoing, any Outside Director may elect not to receive an Option granted pursuant to this paragraph 6(a) by delivering written notice of such election to the Board in the case of an initial Option grant, no later than the Effective Date or, in the case of an Outside Director appointed or elected after the Effective Date, the date upon which such Outside Director is appointed or elected to the Board.

(iii) Notwithstanding any other provision of the Plan to the contrary, no Option shall be granted to any individual on a day when he or she is no longer serving as an Outside Director of the Company.

(b) Option Exercise Price. The exercise price per share of Stock subject to an Option shall be the fair market value of a share of the Stock on the date of the granting of the Option. Where there is a public market for the common stock of the Company, the fair market value per share of Stock shall be the mean of the bid and asked prices of the common stock of the Company on the business day immediately preceding the date of the granting of the Option, as reported in the Wall Street Journal (or, if not so reported, as otherwise reported by the National Association of Securities Dealers Automated Quotation ("NASDAQ") System) or, in the event the common stock of the Company is listed on the NASDAQ National Market System or a securities exchange, the fair market value per share of Stock shall be the closing price on such National Market System or exchange on the business day immediately preceding the date of the granting of the Option, as reported in the Wall Street Journal. If the common stock of the Company is not listed on any exchange or quoted on NASDAQ, the Board of Directors shall in good faith determine the fair market value after consideration of all relevant factors.

(c) Exercise Period and Exercisability of Options. An Option granted pursuant to the Plan shall be exercisable for a term of ten years. Options granted pursuant to the Plan shall first become exercisable on the day (the "Initial Vesting Date") which is one year from the date on which the Option was granted. The Option shall be exercisable on and after the Initial Vesting Date and prior to termination of the Option in an amount equal to the number of Option Shares multiplied by the Vested Ratio as set forth below, less the number of shares previously acquired upon exercise of any portion of the Option.

	Vested Ratio

(i) Prior to Initial Vesting Date	0
On Initial Vesting Date, provided the Optionee has continuously served as a director of the Company from the date the Option was granted until the Initial Vesting Date.	1/4
Plus	
(ii) For each full year of the Optionee's continuous service as a director of the Company from the Initial Vesting Date.	1/4

(d) Payment of Option Exercise Price. Payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check, or in cash equivalent, (ii) by the assignment of the proceeds of a sale of some or all of the shares being acquired upon the exercise of an Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System), (iii) by the delivery to the Company of shares of Stock which have been owned by the holder of the Option for more than six months and which have an aggregate value equal to such exercise price, or (iv) by any combination thereof. The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve and/or terminate any program and/or procedure for the exercise of Options by means of an assignment of the proceeds of a sale of some or all of the shares of Stock to be acquired upon such exercise or the delivery of previously owned shares of Stock.

(e) Transfer of Control. A "Transfer of Control" shall be deemed to have occurred in the event any of the following occurs with respect to the Company:

(i) a merger or consolidation where the stockholders of the Company before such merger or consolidation do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Company after such merger or consolidation;

(ii) the sale, exchange, or transfer of all or substantially all of the assets of the Company other than a sale, exchange, or transfer to one or more subsidiary corporations (as defined in paragraph 1 above) of the Company; or

(iii) the direct or indirect sale or exchange by the stockholders of the Company of all or substantially all of the stock of the Company where the stockholders of the Company before such sale or exchange do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Company after such sale or exchange;

(iv) a liquidation or dissolution of the Company.

In the event of a proposed Transfer of Control, any portion of an Option that has not yet become exercisable shall automatically become exercisable for a period of 30 days prior to the proposed effective date of the Transfer of Control. In the event of a Transfer of Control, the Board, in its sole discretion, may arrange with the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the "Acquiring Corporation"), for the Acquiring Corporation to assume the Company's rights and obligations under outstanding Options or substitute options for the Acquiring Corporation's stock for such outstanding Options. Any Options which are neither assumed or substituted for by the Acquiring Corporation nor exercised as of the date of the Transfer of Control shall terminate and cease to be outstanding effective as of the date of the Transfer of Control.

7. Option Agreements; Authority to Vary Terms. Until amended, Options shall be granted using the form of Option Agreement attached hereto. The Board shall have the authority from time to time to vary the terms of the Option Agreements either in connection with the grant of an individual Option or in connection with the authorization of a new standard form or forms of Option; provided, however, that the terms and conditions of such revised or amended standard form or forms of stock option agreement shall be in accordance with the terms of the Plan. Such authority shall include, but not by way of limitation, the authority to grant Options which are immediately exercisable subject to the Company's right to repurchase any unvested shares of Stock acquired by the Optionee on exercise of an Option in the event such Optionee's service as a director of the Company is terminated for any reason. In no event shall the Board be permitted to vary the terms of the Option Agreements or the Plan if such change would require stockholder approval pursuant to Rule 16b-3 promulgated under the Exchange Act, or any successor rule.

8. Effect of Change in Stock Subject to Plan. Appropriate adjustments shall be made in the number and class of shares of Stock subject to the Plan, the number of shares to be granted under the Plan and to any outstanding Options and in the Option exercise price of any outstanding Options in the event of a stock dividend, stock split, recapitalization, reverse stock split, combination, reclassification, or like change in the capital structure of the Company.

9. Options Non-Transferable. During the lifetime of an Optionee, an Option shall be exercisable only by the Optionee. No Option shall be assignable or transferable by the Optionee, except by will or by the laws of descent and distribution.

10. Termination or Amendment of Plan. The Board, including any duly appointed committee of the Board, may terminate or amend the Plan at any time; provided, however, that without the approval of the stockholders of the Company, there shall be (a) no increase in the total number of shares of Stock covered by the Plan (except by operation of the provisions of paragraph 8 above), and (b) no expansion in the class of persons eligible to receive Options; and provided, further, that the provisions of the Plan addressing eligibility to participate in the Plan and the amount, price and timing of grants of Options shall not be amended more than once every six months, other than to comport to changes in the Code, or the rules thereunder. In addition to the foregoing, the approval of the Company's stockholders shall be sought for any amendment to the Plan for which the Board deems stockholder approval necessary in order to comply with Rule 16b-3 under the Exchange Act, or any successor rule. In any event, no amendment may adversely affect any then outstanding Option, or any unexercised portion thereof, without the consent of the Optionee. This Plan shall be submitted for stockholder approval at the next annual stockholders' meeting. In the event the stockholders do not approve the Plan, no further options shall be granted hereunder.

EXHIBIT A

COHU, INC.
 NONQUALIFIED STOCK OPTION AGREEMENT
 FOR OUTSIDE DIRECTORS

Cohu, Inc., a Delaware corporation (the "Company"), hereby grants to (the "Optionee") an option to purchase a total of _____ (_____) shares of the common stock of the Company (the "Number of Option Shares") under the Cohu, Inc. 1996 Outside Directors Stock Option Plan (the "Plan"), at an exercise price of \$ per share and in the manner and subject to the provisions of this Option Agreement (the "Option"). The grant, in all respects, is subject to the terms and conditions of this Option Agreement and the Plan, the provisions of which are incorporated by reference herein. Unless otherwise provided in this Option Agreement, capitalized terms shall have the meaning given to such terms in the Plan. The Number of Option Shares and the exercise price per share of the Option are subject to adjustment from time to time as provided in the Plan.

1. Grant of the Option. The Option is granted effective as of (the "Date of _____ Option Grant").

2. Status of the Option. The Option is intended to be a nonqualified stock option and shall not be treated as an incentive stock option as described in section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

3. Term of the Option. The Option shall terminate and may no longer be exercised on the first to occur of (i) the date ten years after the Date of Option Grant, (ii) the last date for exercising the Option following termination of the Optionee's service as a director of the Company as described in paragraph 6 below, or (iii) upon a Transfer of Control of the Company as described in the Plan (the date of such first occurrence, the "Option Termination Date").

4. Exercise of the Option.

(a) Right to Exercise.

(i) The Option first becomes exercisable on the day which is one year from the Date of Option Grant (the "Initial Vesting Date") provided the Optionee has continuously served as a director of the Company from the Date of Option Grant until the Initial Vesting Date. The Option shall be exercisable on and after the Initial Exercise Date and prior to the Option Termination Date in the amount equal to the Number of Option Shares multiplied by the Vested Ratio as set forth in paragraph 4(a)(ii), below, less the number of shares previously acquired upon exercise of the Option.

Vested Ratio

(ii)	Prior to Initial Vesting Date	0
	On Initial Vesting Date, provided the Optionee has continuously served as a director of the Company from the date the Option was granted until the Initial Vesting Date.	1/4
Plus - ----		
	For each full year of the Optionee's continuous service as a director of the Company from the Initial Vesting Date.	1/4

(iii) In no event shall the Option be exercisable for more shares than the Number of Option Shares. In addition to the foregoing, in the event that the adoption of the Plan or any amendment of the Plan is subject to the approval of the stockholders of the Company in order for the Option to comply with the requirements of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor rule, the Option shall not be exercisable in the absence of such stockholder approval.

(b) Method of Exercise. The Option may be exercised by written notice to the Company which must state the election to exercise the Option, the number of shares of stock for which the Option is being exercised and such other representations and agreements as to the Optionee's investment intent with respect to such shares as may be required pursuant to the provisions of this Option Agreement and the Plan. The written notice must be signed by the Optionee and must be delivered in person or by certified or registered mail, return receipt requested, to the Chief Financial Officer of the Company, or other authorized representative of the Company, prior to the termination of the Option as set forth in paragraph 3 above, accompanied by full payment of the exercise price for the number of shares of Stock being purchased in a form permitted under the terms of the Plan.

(c) Withholding. At the time the Option is exercised, in whole or in part, or at any time thereafter as requested by the Company, the Optionee shall make adequate provision for the foreign, federal and state tax withholding obligations of the Company, if any, which arise in connection with the Option including, without limitation, obligations arising upon (i) the exercise, in whole or in part, of the Option, (ii) the transfer, in whole or in part, of any shares of stock acquired on exercise of the Option, or (iii) the lapsing of any restriction with respect to any shares acquired on exercise of the Option.

(d) Certificate Registration. The certificate or certificates for the shares of stock as to which the Option shall be exercised shall be registered in the name of the Optionee, or, if applicable, the heirs of the Optionee.

(e) Restriction on Grant of the Option and Issuance of Shares. The grant of the Option and the issuance of shares of stock on exercise of the Option shall be subject to compliance with all of the applicable requirements of federal or state law with respect to such securities. The Option may not be exercised if the issuance of shares of stock upon such exercise would constitute a violation of any applicable federal or state securities laws or other law or regulation. In addition, no Option may be exercised unless (i) a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), shall at the time of exercise of the Option be in effect with respect to the shares of stock issuable upon exercise of the Option, or (ii) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. As a condition to the exercise of the Option, the Company may require the Optionee to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

(f) Fractional Shares. The Company shall not be required to issue fractional shares of stock upon the exercise of the Option.

5. Non-Transferability of the Option. The Option may be exercised during the lifetime of the Optionee only by the Optionee and may not be assigned or transferred in any manner except by will or by the laws of descent and distribution.

6. Termination of Service as a Director.

(a) Termination of Director Status. If the Optionee ceases to be a director of the Company for any reason except death or disability within the meaning of section 22(e)(3) of the Code, the Option, to the extent unexercised and exercisable by the Optionee on the date on which the Optionee ceased to be a director, may be exercised by the Optionee at any time prior to the expiration of three months from the date on which the Optionee's service as a director of the Company terminated, but in any event no later than the Option Termination Date. If the Optionee ceases to be a director of the Company because of the death or disability of the Optionee within the meaning of section 22(e)(3) of the Code, the Option, to the extent unexercised and exercisable by the Optionee on the date on which the Optionee ceased to be a director, may be exercised by the Optionee (or the Optionee's legal representative) at any time prior to the expiration of six months from the date on which the Optionee's service as a director of the Company terminated, but in any event no later than the Option Termination Date. The Optionee's service as a director of the Company shall be deemed to have terminated on account of death if the Optionee dies within three months after the Optionee's termination of service as a director of the Company. Except as provided in this paragraph 6, an Option shall terminate and may not be exercised after the Optionee ceases to be a director of the Company.

(b) Extension of Exercise Prevented by Law. Notwithstanding the foregoing, if the exercise of the Option within the applicable time periods set forth above is prevented because the issuance of shares of stock upon such exercise would constitute a violation of any

applicable federal or state securities law or other law or regulation, the Option shall remain exercisable until three months after the date the Optionee is notified by the Company that the Option is exercisable, but in any event no later than the Option Termination Date.

(c) Extension if Optionee Subject to Section 16(b). Notwithstanding the foregoing, if the exercise of the Option within the applicable time periods set forth above would subject the Optionee to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which the Optionee would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Optionee's termination of service as a director of the Company and (iii) the Option Termination Date.

7. Rights as a Stockholder; Rights to Serve as a Director. The Optionee shall have no rights as a stockholder with respect to any shares of stock covered by the Option until the date of the issuance of a certificate or certificates for the shares for which the Option has been exercised. No adjustment shall be made for dividends or distributions or other rights for which the record date is prior to the date such stock certificate or certificates are issued, except as provided in the Plan. Nothing herein shall be deemed to provide the Optionee with any right to serve as a director of the Company for any length of time.

8. Effect of Change in Stock Subject to the Option. Appropriate adjustments shall be made in the number, exercise price and class of shares of stock subject to the Option in the event of a stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification, or like change in the capital structure of the Company. In the event a majority of the shares which are of the same class as the shares that are subject to the Option are exchanged for, converted into, or otherwise become shares of another corporation (the "New Shares"), the Company may unilaterally amend the Option to provide that the Option is exercisable for New Shares. In the event of any such amendment, the number of shares and the exercise price shall be adjusted in a fair and equitable manner.

9. Transfer of Control. A "Transfer of Control" shall be deemed to have occurred in the event any of the following occurs with respect to the Company:

(a) a merger or consolidation where the stockholders of the Company before such merger or consolidation do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Company after such merger or consolidation;

(b) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange, or transfer to one or more subsidiary corporations (as defined in the Plan) of the Company);

(c) the direct or indirect sale or exchange by the stockholders of the Company of all or substantially all of the stock of the Company where the stockholders of the Company before such sale or exchange do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Company after such sale or exchange; or

(d) A liquidation or dissolution of the Company.

In the event of a proposed Transfer of Control, any portion of this Option that has not yet become exercisable shall automatically become exercisable for a period of 30 days prior to the proposed effective date of such Transfer of Control. In the event of a Transfer of Control, the Board, in its sole discretion, may arrange with the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the "Acquiring Corporation"), for the Acquiring Corporation to assume the Company's rights and obligations under the Option or substitute options for the Acquiring Corporation's stock for the Option. To the extent the Option is neither assumed or substituted for by the Acquiring Corporation in connection with the Transfer of Control nor exercised as of the date of the Transfer of Control, the Option shall terminate and cease to be outstanding effective as of the date of the Transfer of Control.

10. Legends. The Company may at any time place legends referencing any applicable federal or state securities law restrictions on all certificates representing shares of stock subject to the provisions of this Option Agreement. The Optionee shall, at the request of the Company, promptly present to the Company any and all certificates representing shares of stock acquired pursuant to the Option in the possession of the Optionee in order to effectuate the provisions of this paragraph.

11. Binding Effect. This Option Agreement shall inure to the benefit of the successors and assigns of the Company and be binding upon the Company and the Optionee and the Optionee's heirs, executors, administrators, successors and assigns.

12. Termination or Amendment. The Board, including any duly appointed committee of the Board, may terminate or amend the Plan and/or the Option at any time subject to any limitations described in the Plan; provided, however, that no such termination or amendment may adversely affect the Option or any unexercised portion hereof without the consent of the Optionee.

13. Integrated Agreement. This Option Agreement and the Plan constitute the entire understanding and agreement of the Optionee and the Company with respect to the subject matter contained herein and therein, and there are no agreements, understandings, restrictions, representations, or warranties among the Optionee and the Company other than those as set forth or provided for herein or therein. To the extent contemplated herein and therein, the provisions of this Option Agreement and the Plan shall survive any exercise of the Option and shall remain in full force and effect.

14. Applicable Law. This Option Agreement shall be governed by the laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within the State of California.

COHU, INC.

By: _____

Title: _____

The Optionee represents that the Optionee is familiar with the terms and provisions of this Option Agreement and the Plan and hereby accepts the Option subject to all of the terms and provisions thereof. The Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under this Option Agreement or the Plan.

The undersigned acknowledges receipt of a copy of the Plan.

Date:

Signature

COHU, INC.

1997 EMPLOYEE STOCK PURCHASE PLAN

1. ESTABLISHMENT AND PURPOSE

1.1 ESTABLISHMENT. The Cohu, Inc. 1997 Employee Stock Purchase Plan (the "PLAN") is hereby established effective as of February 28, 1997 (the "EFFECTIVE DATE").

1.2 PURPOSE. The purpose of the Plan to provide Eligible Employees of the Participating Company Group with an opportunity to acquire a proprietary interest in the Company through the purchase of Stock. The Company intends that the Plan shall qualify as an "employee stock purchase plan" under Sections 421 and 423 of the Code (including any amendments or replacements of such section), and the Plan shall be so construed.

2. DEFINITIONS AND CONSTRUCTION.

2.1 DEFINITIONS. Any term not expressly defined in the Plan but defined for purposes of Section 423 of the Code shall have the same definition herein. Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) "BOARD" means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, "Board" also means such Committee(s).

(b) "CODE" means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(c) "COMMITTEE" means a committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. Unless the powers of the Committee have been specifically limited, the Committee shall have all of the powers of the Board granted herein, including, without limitation, the power to amend or terminate the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law.

(d) "COMPANY" means Cohu, Inc., a Delaware corporation, or any successor corporation thereto.

(e) "COMPENSATION" means, with respect to an Offering Period under the Plan, all amounts paid in cash in the form of base salary, paid during such Offering Period before deduction for any contributions to any plan maintained by a Participating Company and described in Section 401(k) or Section 125 of the Code. Compensation shall not include payments of overtime, bonuses, commissions, other incentive compensation, reimbursements of expenses, allowances, long-term disability, workers' compensation or any amount deemed received or any amounts directly or indirectly paid pursuant to the Plan or any other stock purchase or stock option plan.

(f) "ELIGIBLE EMPLOYEE" means an Employee who meets the requirements set forth in Section 5 for eligibility to participate in the Plan.

(g) "EMPLOYEE" means any person treated as an employee (including an officer or a director who is also treated as an employee) in the records of a Participating Company and for purposes of Section 423 of the Code; provided, however, that neither service as a director nor payment of a director's fee shall be sufficient to constitute employment for purposes of the Plan.

(h) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(i) "FAIR MARKET VALUE" means, as of any date, if there is then a public market for the Stock, the closing price of a share of Stock (or the mean of the closing bid and asked prices of a share of Stock if the Stock is so reported instead) as reported on the National Association of Securities Dealers Automated Quotation ("NASDAQ") System, the Nasdaq National Market System or such other national or regional securities exchange or market system constituting the primary market for the Stock. If the relevant date does not fall on a day on which the Stock is trading on Nasdaq, the Nasdaq National Market System or other national or regional securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Board, in its sole discretion. If there is then no public market for the Stock, the Fair Market Value on any relevant date shall be as determined by the Board without regard to any restriction other than a restriction which, by its terms, will never lapse.

(j) "OFFERING" means an offering of Stock as provided in Section 6.

(k) "OFFERING DATE" means, for any Offering Period, the first day of such Offering Period.

(l) "OFFERING PERIOD" means a period determined in accordance with Section 6.1.

(m) "PARENT CORPORATION" means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.

(n) "PARTICIPANT" means an Eligible Employee participating in the Plan.

(o) "PARTICIPATING COMPANY" means the Company or any Parent Corporation or Subsidiary Corporation which the Board determines should be included in the Plan. The Board shall have the sole and absolute discretion to determine from time to time what Parent Corporations or Subsidiary Corporations shall be Participating Companies.

(p) "PARTICIPATING COMPANY GROUP" means, at any point in time, the Company and all other corporations collectively which are then Participating Companies.

(q) "PURCHASE DATE" means, for any Offering Period, the last day of such Offering Period.

(r) "PURCHASE PRICE" means the price at which a share of Stock may be purchased pursuant to the Plan, as determined in accordance with Section 9.

(s) "PURCHASE RIGHT" means an option pursuant to the Plan to purchase such shares of Stock as provided in Section 8 which may or may not be exercised at the end of an Offering Period. Such option arises from the right of a Participant to withdraw such Participant's accumulated payroll deductions (if any) and terminate participation in the Plan or any Offering therein at any time during a Offering Period.

(t) "STOCK" means the common stock, \$1.00 par value, of the Company, as adjusted from time to time in accordance with Section 4.2.

(u) "SUBSIDIARY CORPORATION" means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

2.2 CONSTRUCTION. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural, the plural shall include the singular, and use of the term "or" shall include the conjunctive as well as the disjunctive.

3. ADMINISTRATION. The Plan shall be administered by the Board, including any duly appointed Committee of the Board. All questions of interpretation of the Plan or of any Purchase Right shall be determined by the Board and shall be final and binding upon all persons having an interest in the Plan or such Purchase Right. Subject to the provisions of the Plan, the Board shall determine all of the relevant terms and conditions of Purchase Rights granted pursuant to the Plan; provided, however, that all Participants granted Purchase Rights pursuant to the Plan shall have the same rights and privileges within the meaning of Section 423(b)(5) of the Code. All expenses incurred in connection with the administration of the Plan shall be paid by the Company.

4. SHARES SUBJECT TO PLAN.

4.1 MAXIMUM NUMBER OF SHARES ISSUABLE. Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be three hundred thousand (300,000) and shall consist of authorized but unissued or reacquired shares of the Stock, or any combination thereof. If an outstanding Purchase Right for any reason expires or is terminated or canceled, the shares of Stock allocable to the unexercised portion of such Purchase Right shall again be available for issuance under the Plan.

4.2 ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, or in the event of any merger (including a merger effected for the purpose of changing the Company's domicile), sale of assets or other reorganization in which the Company is a party, appropriate adjustments shall be made to the

number and class of shares subject to the Plan, to the Per Offering Share Limit set forth in Section 8.1 and to each Purchase Right and to the Purchase Price.

5. ELIGIBILITY.

5.1 EMPLOYEES ELIGIBLE TO PARTICIPATE. Any Employee of a Participating Company is eligible to participate in the Plan except the following:

(a) Employees who are customarily employed by the Participating Company Group for twenty (20) hours or less per week;

(b) Employees who are customarily employed by the Participating Company Group for not more than five (5) months in any calendar year; and

(c) Employees who own or hold options to purchase or who, as a result of participation in the Plan, would own or hold options to purchase, stock of the Company or of any Parent Corporation or Subsidiary Corporation possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of such corporation within the meaning of Section 423(b)(3) of the Code.

5.2 LEASED EMPLOYEES EXCLUDED. Notwithstanding anything herein to the contrary, any individual performing services for a Participating Company solely through a leasing agency or employment agency shall not be deemed an "Employee" of such Participating Company.

6. OFFERINGS.

6.1 OFFERING PERIODS. Except as otherwise set forth below, the Plan shall be implemented by sequential Offerings of six (6) months duration (an "OFFERING PERIOD"); provided, however that the first Offering Period shall commence on July 1, 1997 and end on October 30, 1997 (the "INITIAL OFFERING PERIOD"). Subsequent Offerings shall commence on the first days of November and May of each year and end on the last days of the first April and October, respectively, occurring thereafter. Notwithstanding the foregoing, the Board may establish a different term for one or more Offerings or different commencing or ending dates for such Offerings; provided, however, that no Offering may exceed a term of twenty-seven (27) months. An Employee who becomes an Eligible Employee after an Offering Period has commenced shall not be eligible to participate in such Offering but may participate in any subsequent Offering provided such Employee is still an Eligible Employee as of the commencement of any such subsequent Offering. In the event the first or last day of an Offering Period is not a business day, the Company shall specify the business day that will be deemed the first or last day, as the case may be, of the Offering Period.

6.2 GOVERNMENTAL APPROVAL; STOCKHOLDER APPROVAL. Notwithstanding any other provision of the Plan to the contrary, any Purchase Right granted pursuant to the Plan shall be subject to (a) obtaining all necessary governmental approvals or qualifications of the sale or issuance of the Purchase Rights or the shares of Stock and (b) obtaining stockholder approval of the Plan. Notwithstanding the foregoing, stockholder approval shall not be necessary in order to grant any Purchase Right granted in the Plan's Initial Offering Period; provided, however, that

the exercise of any such Purchase Right shall be subject to obtaining stockholder approval of the Plan.

7. PARTICIPATION IN THE PLAN.

7.1 INITIAL PARTICIPATION. An Eligible Employee shall become a Participant on the first Offering Date after satisfying the eligibility requirements of Section 5 and delivering to the Company's payroll office or other office designated by the Company not later than the close of business for such office on the last business day before such Offering Date (the "SUBSCRIPTION DATE") a subscription agreement indicating the Employee's election to participate in the Plan and authorizing payroll deductions. An Eligible Employee who does not deliver a subscription agreement to the Company's payroll or other designated office on or before the Subscription Date shall not participate in the Plan for that Offering Period or for any subsequent Offering Period unless such Employee subsequently enrolls in the Plan by filing a subscription agreement with the Company by the Subscription Date for such subsequent Offering Period. The Company may, from time to time, change the Subscription Date as deemed advisable by the Company in its sole discretion for proper administration of the Plan.

7.2 CONTINUED PARTICIPATION. A Participant shall automatically participate in each subsequent Offering Period until such time as such Participant (a) ceases to be an Eligible Employee, (b) withdraws from the Plan pursuant to Section 13.2 or (c) terminates employment as provided in Section 14. If a Participant automatically may participate in a subsequent Offering Period pursuant to this Section 7.2, then the Participant is not required to file any additional subscription agreement for such subsequent Offering Period in order to continue participation in the Plan. However, a Participant may file a subscription agreement with respect to a subsequent Offering Period if the Participant desires to change any of the Participant's elections contained in the Participant's then effective subscription agreement.

8. RIGHT TO PURCHASE SHARES.

8.1 PURCHASE RIGHT. Except as set forth below, during an Offering Period each Participant shall have a Purchase Right consisting of the right to purchase up to that number of whole shares of Stock arrived at by dividing Twelve Thousand Five Hundred Dollars (\$12,500) by the Fair Market Value of a share of Stock on the Offering Date of such Offering Period. Shares of Stock may only be purchased through a Participant's payroll deductions pursuant to Section 10.

8.2 PRO RATA ADJUSTMENT OF PURCHASE RIGHT. Notwithstanding the foregoing, if the Board shall establish an Offering Period of less than five and one-half (5 1/2) months or more than six and one-half (6 1/2) months in duration, the dollar amount in Section 8.1 shall be determined by multiplying \$2,083.33 by the number of months in the Offering Period and rounding to the nearest whole dollar. For purposes of the preceding sentence, fractional months shall be rounded to the nearest whole month.

9. PURCHASE PRICE. The Purchase Price at which each share of Stock may be acquired in a given Offering Period pursuant to the exercise of all or any portion of a Purchase Right granted under the Plan shall be set by the Board; provided, however, that the Purchase Price shall not be less than eighty-five percent (85%) of the lesser of (a) the Fair Market Value of

a share of Stock on the Offering Date of the Offering Period, or (b) the Fair Market Value of a share of Stock on the Purchase Date of the Offering Period. Unless otherwise provided by the Board prior to the commencement of an Offering Period, the Purchase Price for that Offering Period shall be eighty-five percent (85%) of the lesser of (a) the Fair Market Value of a share of Stock on the Offering Date of the Offering Period, or (b) the Fair Market Value of a share of Stock on the Purchase Date of the Offering Period.

10. ACCUMULATION OF PURCHASE PRICE THROUGH PAYROLL DEDUCTION. Shares of Stock which are acquired pursuant to the exercise of all or any portion of a Purchase Right for an Offering Period may be paid for only by means of payroll deductions from the Participant's Compensation accumulated during the Offering Period. Except as set forth below, the amount of Compensation to be deducted from a Participant's Compensation during each pay period shall be determined by the Participant's subscription agreement.

10.1 COMMENCEMENT OF PAYROLL DEDUCTIONS. Payroll deductions shall commence on the first payday following the Offering Date and shall continue to the end of the Offering Period unless sooner altered or terminated as provided in the Plan.

10.2 LIMITATIONS ON PAYROLL DEDUCTIONS. The amount of payroll deductions with respect to the Plan for any Participant during any pay period shall be in one percent (1%) increments not to exceed ten percent (10%) of the Participant's Compensation for such pay period. Notwithstanding the foregoing, the Board may change the limits on payroll deductions effective as of a future Offering Date, as determined by the Board. Amounts deducted from Compensation shall be reduced by any amounts contributed by the Participant and applied to the purchase of Company stock pursuant to any other employee stock purchase plan qualifying under Section 423 of the Code.

10.3 ELECTION TO INCREASE, DECREASE OR STOP PAYROLL DEDUCTIONS. During an Offering Period, a Participant may elect to increase or decrease the amount deducted or stop deductions from his or her Compensation by filing an amended subscription agreement with the Company on or before the "Change Notice Date." The "CHANGE NOTICE DATE" shall initially be the seventh (7th) day prior to the end of the first pay period for which such election is to be effective; however, the Company may change such Change Notice Date from time to time.

10.4 PARTICIPANT ACCOUNTS. Individual Plan accounts shall be maintained for each Participant. All payroll deductions from a Participant's Compensation shall be credited to such account and shall be deposited with the general funds of the Company. All payroll deductions received or held by the Company may be used by the Company for any corporate purpose.

10.5 NO INTEREST PAID. Interest shall not be paid on sums deducted from a Participant's Compensation pursuant to the Plan.

10.6 COMPANY ESTABLISHED PROCEDURES. The Company may, from time to time, establish or change (a) a minimum required payroll deduction amount for participation in an Offering, (b) limitations on the frequency or number of changes in the rate of payroll deduction during an Offering, (c) an exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, (d) payroll deduction in excess of or less than the amount designated by a

Participant in order to adjust for delays or mistakes in the Company's processing of subscription agreements, (e) the date(s) and manner by which the Fair Market Value of a share of Stock is determined for purposes of administration of the Plan, or (f) such other limitations or procedures as deemed advisable by the Company in the Company's sole discretion which are consistent with the Plan and in accordance with the requirements of Section 423 of the Code.

11. PURCHASE OF SHARES.

11.1 EXERCISE OF PURCHASE RIGHT. On each Purchase Date, each Participant who has not withdrawn from the Offering or whose participation in the Offering has not terminated on or before such Purchase Date shall automatically acquire pursuant to the exercise of the Participant's Purchase Right the number of whole shares of Stock arrived at by dividing the total amount of the Participant's accumulated payroll deductions for the Purchase Period by the Purchase Price; provided, however, in no event shall the number of shares purchased by the Participant during an Offering Period exceed the number of shares subject to the Participant's Purchase Right. No shares of Stock shall be purchased on a Purchase Date on behalf of a Participant whose participation in the Offering or the Plan has terminated on or before such Purchase Date.

11.2 RETURN OF CASH BALANCE. Any cash balance remaining in the Participant's Plan account shall be refunded to the Participant as soon as practicable after the Purchase Date. In the event the cash to be returned to a Participant pursuant to the preceding sentence is an amount less than the amount necessary to purchase a whole share of Stock, the Company may establish procedures whereby such cash is maintained in the Participant's Plan account and applied toward the purchase of shares of Stock in the subsequent Offering Period.

11.3 TAX WITHHOLDING. At the time a Participant's Purchase Right is exercised, in whole or in part, or at the time a Participant disposes of some or all of the shares of Stock he or she acquires under the Plan, the Participant shall make adequate provision for the foreign, federal, state and local tax withholding obligations of the Participating Company Group, if any, which arise upon exercise of the Purchase Right or upon such disposition of shares, respectively. The Participating Company Group may, but shall not be obligated to, withhold from the Participant's compensation the amount necessary to meet such withholding obligations.

11.4 EXPIRATION OF PURCHASE RIGHT. Any portion of a Participant's Purchase Right remaining unexercised after the end of the Offering Period to which such Purchase Right relates shall expire immediately upon the end of such Offering Period.

12. LIMITATIONS ON PURCHASE OF SHARES; RIGHTS AS A STOCKHOLDER.

12.1 FAIR MARKET VALUE LIMITATION. Notwithstanding any other provision of the Plan, no Participant shall be entitled to purchase shares of Stock under the Plan (or any other employee stock purchase plan which is intended to meet the requirements of Section 423 of the Code sponsored by the Company or a Parent Corporation or Subsidiary Corporation at a rate which exceeds \$25,000 in Fair Market Value, which Fair Market Value is determined for shares purchased during a given Offering Period as of the Offering Date (or such other limit as may be imposed by the Code), for each calendar year in which the Participant participates in the Plan (or any other employee stock purchase plan described in this sentence).

12.2 PRO RATA ALLOCATION. In the event the number of shares of Stock which might be purchased by all Participants in the Plan exceeds the number of shares of Stock available in the Plan, the Company shall make a pro rata allocation of the remaining shares in as uniform a manner as shall be practicable and as the Company shall determine to be equitable.

12.3 RIGHTS AS A STOCKHOLDER AND EMPLOYEE. A Participant shall have no rights as a stockholder by virtue of the Participant's participation in the Plan until the date of the issuance of a stock certificate for the shares of Stock being purchased pursuant to the exercise of the Participant's Purchase Right. No adjustment shall be made for cash dividends or distributions or other rights for which the record date is prior to the date such stock certificate is issued. Nothing herein shall confer upon a Participant any right to continue in the employ of the Participating Company Group or interfere in any way with any right of the Participating Company Group to terminate the Participant's employment at any time.

13. WITHDRAWAL.

13.1 WITHDRAWAL FROM AN OFFERING. A Participant may withdraw from an Offering by signing and delivering to the Company's payroll or other designated office a written notice of withdrawal on a form provided by the Company for such purpose. Such withdrawal may be elected at any time prior to the end of an Offering Period. Unless otherwise indicated, withdrawal from an Offering shall not result in a withdrawal from the Plan or any succeeding Offering therein. A Participant is prohibited from again participating in an Offering at any time following withdrawal from such Offering. The Company may impose, from time to time, a requirement that the notice of withdrawal be on file with the Company's payroll office or other designated office for a reasonable period prior to the effectiveness of the Participant's withdrawal from an Offering.

13.2 WITHDRAWAL FROM THE PLAN. A Participant may withdraw from the Plan by signing and delivering to the Company's payroll office or other designated office a written notice of withdrawal on a form provided by the Company for such purpose. Withdrawals made after a Purchase Date shall not affect shares of Stock acquired by the Participant on such Purchase Date. In the event a Participant voluntarily elects to withdraw from the Plan, the Participant may not resume participation in the Plan during the same Offering Period, but may participate in any subsequent Offering under the Plan by again satisfying the requirements of Sections 5 and 7.1. The Company may impose, from time to time, a requirement that the notice of withdrawal be on file with the Company's payroll office or other designated office for a reasonable period prior to the effectiveness of the Participant's withdrawal from the Plan.

13.3 RETURN OF PAYROLL DEDUCTIONS. Upon a Participant's withdrawal from an Offering or the Plan pursuant to Sections 13.1 or 13.2, respectively, the Participant's accumulated payroll deductions which have not been applied toward the purchase of shares of Stock shall be returned as soon as practicable after the withdrawal, without the payment of any interest, to the Participant, and the Participant's interest in the Offering or the Plan, as applicable, shall terminate. Such accumulated payroll deductions may not be applied to any other Offering under the Plan.

14. TERMINATION OF EMPLOYMENT OR ELIGIBILITY. Termination of a Participant's employment with a Participating Company for any reason, including retirement, disability or death or the failure of a Participant to remain an Eligible Employee, shall terminate the Participant's participation in the Plan immediately. In such event, the payroll deductions credited to the Participant's Plan account since the last Purchase Date shall, as soon as practicable, be returned to the Participant or, in the case of the Participant's death, to the Participant's legal representative, and all of the Participant's rights under the Plan shall terminate. Interest shall not be paid on sums returned to a Participant pursuant to this Section 14. A Participant whose participation has been so terminated may again become eligible to participate in the Plan by again satisfying the requirements of Sections 5 and 7.1.

15. TRANSFER OF CONTROL.

15.1 DEFINITIONS.

(a) An "OWNERSHIP CHANGE EVENT" shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company; or (iv) a liquidation or dissolution of the Company.

(b) A "TRANSFER OF CONTROL" shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, the "TRANSACTION") wherein the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting stock of the Company or the corporation or corporations to which the assets of the Company were transferred (the "TRANSFeree CORPORATION(S)"), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting stock of one or more corporations which, as a result of the Transaction, own the Company or the Transferee Corporation(s), as the case may be, either directly or through one or more subsidiary corporations. The Board shall have the right to determine whether multiple sales or exchanges of the voting stock of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

15.2 EFFECT OF TRANSFER OF CONTROL ON PURCHASE RIGHTS. In the event of a Transfer of Control, the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the "ACQUIRING CORPORATION"), may assume the Company's rights and obligations under the Plan or substitute substantially equivalent Purchase Rights for stock of the Acquiring Corporation. If the Acquiring Corporation elects not to assume or substitute for the outstanding Purchase Rights, the Board shall, notwithstanding any other provision herein to the contrary, adjust the Purchase Date of the then current Offering Period to a date immediately before the date of the Transfer of Control, but shall not adjust the number of shares of Stock subject to any Purchase Right. All Purchase Rights which are neither assumed or substituted for by the Acquiring Corporation in connection with the Transfer of Control nor

exercised as of the date of the Transfer of Control shall terminate and cease to be outstanding effective as of the date of the Transfer of Control. Notwithstanding the foregoing, if the corporation the stock of which is subject to the outstanding Purchase Rights immediately prior to an Ownership Change Event described in Section 15.1(a)(i) constituting a Transfer of Control is the surviving or continuing corporation and immediately after such Ownership Change Event less than fifty percent (50%) of the total combined voting power of its voting stock is held by another corporation or by other corporations that are members of an affiliated group within the meaning of section 1504(a) of the Code without regard to the provisions of section 1504(b) of the Code, the outstanding Purchase Rights shall not terminate unless the Board otherwise provides in its sole discretion.

16. NONTRANSFERABILITY OF PURCHASE RIGHTS. A Purchase Right may not be transferred in any manner otherwise than by will or the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant. Any attempt to pledge, assign or transfer such Purchase Rights or accumulated payroll deductions shall be treated as an election to withdraw from the Plan. The Company, in its absolute discretion, may impose such restrictions on the transferability of the shares purchasable upon the exercise of a Purchase Right as it deems appropriate and any such restriction shall be set forth in the respective subscription agreement and may be referred to on the certificates evidencing such shares.

17. REPORTS. Each Participant who exercised all or part of his or her Purchase Right for an Offering Period shall receive, as soon as practicable after the Purchase Date, a report of such Participant's Plan account setting forth the total payroll deductions accumulated, the number of shares of Stock purchased, the Purchase Price for such shares, the date of purchase and the remaining cash balance to be refunded or retained in the Participant's Plan account pursuant to Section 11.2, if any. Each Participant shall be provided information concerning the Company equivalent to that information generally made available to the Company's common stockholders.

18. RESTRICTION ON ISSUANCE OF SHARES. The issuance of shares under the Plan shall be subject to compliance with all applicable requirements of foreign, federal or state law with respect to such securities. A Purchase Right may not be exercised if the issuance of shares upon such exercise would constitute a violation of any applicable foreign, federal or state securities laws or other law or regulations. In addition, no Purchase Right may be exercised unless (a) a registration statement under the Securities Act of 1933, as amended, shall at the time of exercise of the Purchase Right be in effect with respect to the shares issuable upon exercise of the Purchase Right, or (b) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Purchase Right may be issued in accordance with the terms of an applicable exemption from the registration requirements of said Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares under the Plan shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of a Purchase Right, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation, and to make any representation or warranty with respect thereto as may be requested by the Company.

19. LEGENDS. The Company may at any time place legends or other identifying symbols referencing any applicable foreign, federal or state securities law restrictions or any provision convenient in the administration of the Plan on some or all of the certificates representing shares of Stock issued under the Plan. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to a Purchase Right in the possession of the Participant in order to carry out the provisions of this Section. Unless otherwise specified by the Company, legends placed on such certificates may include but shall not be limited to the following:

"THE SHARES EVIDENCED BY THIS CERTIFICATE WERE ISSUED BY THE CORPORATION TO THE REGISTERED HOLDER UPON THE PURCHASE OF SHARES UNDER AN EMPLOYEE STOCK PURCHASE PLAN AS DEFINED IN SECTION 423 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED. THE TRANSFER AGENT FOR THE SHARES EVIDENCED HEREBY SHALL NOTIFY THE CORPORATION IMMEDIATELY OF ANY TRANSFER OF THE SHARES BY THE REGISTERED HOLDER HEREOF MADE ON OR BEFORE , 19 . THE REGISTERED HOLDER SHALL HOLD ALL SHARES PURCHASED UNDER THE PLAN IN THE REGISTERED HOLDER'S NAME (AND NOT IN THE NAME OF ANY NOMINEE) PRIOR TO THIS DATE."

20. NOTIFICATION OF SALE OF SHARES. The Company may require the Participant to give the Company prompt notice of any disposition of shares acquired by exercise of a Purchase Right within two years from the date of granting such Purchase Right or one year from the date of exercise of such Purchase Right. The Company may require that until such time as a Participant disposes of shares acquired upon exercise of a Purchase Right, the Participant shall hold all such shares in the Participant's name (and not in the name of any nominee) until the lapse of the time periods with respect to such Purchase Right referred to in the preceding sentence. The Company may direct that the certificates evidencing shares acquired by exercise of a Purchase Right refer to such requirement to give prompt notice of disposition.

21. AMENDMENT OR TERMINATION OF THE PLAN. The Plan shall terminate on the earliest to occur of (i) February 28, 2007; (ii) the date on which all available shares are issued; or (iii) the date on which the outstanding Purchase Rights are exercised in connection with a Transfer of Control. The Board may at any time amend or terminate the Plan, except that (a) such termination shall not affect Purchase Rights previously granted under the Plan, except as permitted under the Plan, and (b) no amendment may adversely affect a Purchase Right previously granted under the Plan (except to the extent permitted by the Plan or as may be necessary to qualify the Plan as an employee stock purchase plan pursuant to Section 423 of the Code or to obtain qualification or registration of the shares of Stock under applicable foreign, federal or state securities laws). In addition, an amendment to the Plan must be approved by the stockholders of the Company within twelve (12) months of the adoption of such amendment if such amendment would (a) authorize the sale of more shares than are authorized for issuance under the Plan; or (b) change the definition of the corporations that may be designated by the Board as Participating Companies; or (c) materially modify the eligibility requirements of the Plan except as required by changes in the Code; or (d) permit payroll deductions with respect to the Plan in excess of 10% of the Participant's Compensation; or (e) materially increase the benefits which may accrue under the Plan.

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COMPANY PROFILE

Cohu, Inc. is the largest U.S. based, and one of the world's largest, suppliers of test handling equipment used by semiconductor manufacturers in final test operations. The Company, with sales and service facilities worldwide, also manufactures closed circuit television, metal detection and microwave equipment.

FINANCIAL HIGHLIGHTS

(in thousands, except per share data)

OPERATIONS:

	1996	1995
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Orders	\$ 147,857	\$ 189,394
Net sales	159,353	178,759
Net income	24,239	23,622
Net income per share	2.50	2.46

BALANCE SHEET:

Cash, cash equivalents and short-term investments	52,986	28,874
Working capital	78,003	57,228
Total assets	117,926	103,934
Stockholders' equity	96,272	72,029

YEAR	ORDERS	SALES	NET INCOME	STOCKHOLDERS' EQUITY
1992	55.5	54.4	3.1	27.5
1993	77.9	75.3	6.8	33.6
1994	106.8	102.7	10.1	47.4
1995	189.4	178.8	23.6	72.0
1996	147.9	159.4	24.2	96.3

FORWARD-LOOKING STATEMENTS

THIS ANNUAL REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AND IS SUBJECT TO THE SAFE HARBOR PROVISIONS CREATED BY THAT STATUTE. THE WORDS "PLAN", "FORECAST", "EXPECT", "BELIEVE" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY SUCH STATEMENTS THAT ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES, INCLUDING BUT NOT LIMITED TO THOSE DISCUSSED UNDER THE CAPTION "BUSINESS RISKS AND UNCERTAINTIES" ON PAGE 16 OF THIS ANNUAL REPORT, THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF.

LETTER TO STOCKHOLDERS:

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Sales for 1996 were \$159.4 million, a decrease of 11% from 1995 sales of \$178.8 million. Net income for 1996 increased 3% to \$24.2 million, or \$2.50 per share, from \$23.6 million, or \$2.46 per share for 1995. Orders for 1996 were \$147.9 million, a decrease of 22% from 1995 orders of \$189.4 million.

Sales and orders declined from 1995 levels as the slowdown in the semiconductor industry had an adverse effect on orders for test handling equipment manufactured by the Company's Delta Design and Daymarc subsidiaries. Fourth quarter sales and net income were also impacted by the slowdown. On the positive side, orders for the fourth quarter were 47% higher than the prior quarter, thereby reversing the 1996 downward order trend.

Sales of semiconductor test handling equipment accounted for 79% of consolidated sales for 1996 compared to 82% of sales in 1995. Sales of television cameras and related equipment by the Electronics Division accounted for 14% of sales and the FRL and BMS subsidiaries, combined, contributed 7% of sales. International sales for 1996 were \$71.7 million compared to 1995 international sales of \$72 million and accounted for 45% of consolidated sales compared to 40% for the prior year. Most of these sales were to off-shore operations of major multinational semiconductor manufacturers. The largest segment of international sales is supported by our subsidiary located in Singapore with additional service personnel located in Malaysia, Hong Kong, Taiwan, Thailand, China and the Philippines.

Despite the difficult conditions that the Company and the semiconductor equipment industry faced in 1996, it was a year of significant accomplishments for Cohu. The Company generated \$30.1 million in cash from operations and ended 1996 in the strongest financial position in its history with no bank debt and \$53 million in cash and short-term investments. The new Daymarc facility in Littleton, Massachusetts was opened and that along with the expansion of Delta's facilities in San Diego increased our semiconductor equipment floor space by 60% to 206,000 square feet. More resources were committed to research and development which increased 37% to \$14.0 million in 1996 from \$10.2 million in 1995. We plan on continuing these efforts in 1997.

In addition, Cohu was included in the Forbes magazine list of the "200 Best Small Companies in America" and the Fortune magazine list of the "100 Fastest Growing Companies in America". These lists were compiled based on financial information through mid 1996. We are proud of this recognition for our outstanding financial performance and realize that inclusion on any such future lists will be challenging.

We believe that Cohu's global market presence, strong balance sheet and the increased investment in research and development places the Company in a position to benefit from the promising long-term outlook of the semiconductor industry.

Dividends of \$1.9 million or \$.20 per share were paid in 1996, the 18th consecutive year of cash dividend payments and the 10th year in a row in which dividends were increased.

We thank our customers and stockholders for their confidence and our employees and suppliers for their support and loyalty.

Sincerely,

/s/ CHARLES A. SCHWAN

Charles A. Schwan
President and Chief Executive Officer
February 17, 1997

SELECTED FINANCIAL DATA

(in thousands, except per share and employee data)

FOR THE YEARS ENDED DECEMBER 31		1996	1995	1994	1993	1992
		-----	-----	-----	-----	-----
Net Sales:						
Semiconductor test handling equipment		\$ 126,236	\$ 146,093	\$ 72,502	\$ 47,827	\$ 30,045
Television and other equipment		33,117	32,666	30,224	27,451	24,353
		-----	-----	-----	-----	-----
		\$ 159,353	\$ 178,759	\$ 102,726	\$ 75,278	\$ 54,398
		=====	=====	=====	=====	=====
Operating profit:						
Semiconductor test handling equipment		\$ 34,460	\$ 36,490	\$ 15,063	\$ 9,261	\$ 4,582
Television and other equipment		2,826	1,964	1,829	1,821	1,386
		-----	-----	-----	-----	-----
		37,286	38,454	16,892	11,082	5,968
Less:						
Corporate administrative expense		(407)	(224)	(128)	(99)	(61)
Interest income		1,960	704	60	31	-
Interest expense		-	(12)	(206)	(4)	(130)
		-----	-----	-----	-----	-----
Income before income taxes and effect of accounting change		38,839	38,922	16,618	11,010	5,777
Provision for income taxes		14,600	15,300	6,500	4,200	2,290
		-----	-----	-----	-----	-----
Income before effect of accounting change		24,239	23,622	10,118	6,810	3,487
Transition effect of accounting change, net of taxes		-	-	-	-	410
		-----	-----	-----	-----	-----
Net income		\$ 24,239	\$ 23,622	\$ 10,118	\$ 6,810	\$ 3,077
		=====	=====	=====	=====	=====
Income per share before effect of accounting change		\$ 2.50	\$ 2.46	\$ 1.15	\$ 0.81	\$ 0.43
Net income per share		2.50	2.46	1.15	0.81	0.38
Cash dividends per share, paid quarterly		0.20	0.16	0.12	0.10	0.09
Depreciation and amortization deducted in arriving at operating profit:						
Semiconductor test handling equipment		\$ 990	\$ 1,051	\$ 498	\$ 260	\$ 224
Television and other equipment		663	833	683	692	675
		-----	-----	-----	-----	-----
		\$ 1,653	\$ 1,884	\$ 1,181	\$ 952	\$ 899
		=====	=====	=====	=====	=====
Capital expenditures:						
Semiconductor test handling equipment		\$ 3,586	\$ 4,932	\$ 649	\$ 409	\$ 342
Television and other equipment		1,550	355	371	328	870
		-----	-----	-----	-----	-----
		\$ 5,136	\$ 5,287	\$ 1,020	\$ 737	\$ 1,212
		=====	=====	=====	=====	=====
AT DECEMBER 31						
Total assets by industry segment:						
Semiconductor test handling equipment		\$ 39,981	\$ 48,708	\$ 45,316	\$ 19,733	\$ 17,449
Television and other equipment		18,022	19,126	18,730	18,313	17,337
Corporate		59,923	36,100	3,922	4,789	1,274
		-----	-----	-----	-----	-----
		\$ 117,926	\$ 103,934	\$ 67,968	\$ 42,835	\$ 36,060
		=====	=====	=====	=====	=====
Working capital		\$ 78,003	\$ 57,228	\$ 37,680	\$ 26,352	\$ 19,126
Long-term debt		-	-	1,400	-	-
Number of employees		796	903	707	562	476
Number of equivalent shares		9,677	9,584	8,816	8,366	8,140

QUARTERLY FINANCIAL DATA (UNAUDITED)

		FIRST	SECOND	THIRD	FOURTH	YEAR
		-----	-----	-----	-----	-----
Net sales:	1996	\$ 50,232	\$ 45,864	\$ 34,763	\$ 28,494	\$159,353
	1995	32,182	45,212	49,035	52,330	178,759
Gross profit:	1996	22,884	21,066	14,876	11,949	70,775
	1995	12,281	17,268	18,905	22,591	71,045
Net income:	1996	7,894	7,582	5,191	3,572	24,239
	1995	3,480	4,940	6,500	8,702	23,622
Net income per share:	1996	0.81	0.78	0.54	0.37	2.50
	1995	0.37	0.52	0.67	0.90	2.46

Through its Delta Design and Daymarc subsidiaries, Cohu is the largest U.S. based and one of the world's largest, suppliers of semiconductor test handling equipment. Test handlers are electromechanical systems designed to automatically handle, temperature condition, contact and sort integrated circuits (ICs) during the IC test process. Testers are specialized, computer controlled electronic systems that perform electronic evaluation of ICs, including proper functionality, voltage/current characteristics and critical timing parameters. Testing is used to determine the quality and performance of the packaged IC prior to shipment to customers. Testers are designed to test specific IC types, such as microprocessor, logic, DRAM or mixed signal, without regard to the package used to house the IC. On the other hand, the package, rather than the circuit type, is critical to the test handler, which is connected to the tester and automates the flow of ICs through the test process.

The Company designs, manufactures, markets and services IC test handling equipment from facilities in San Diego, California (Delta Design) and Littleton, Massachusetts (Daymarc). Sales, service and technical personnel are located throughout the U.S., Asia and Europe. Most test handlers use one of two handling technologies to transport ICs: gravity-feed or pick-and-place. Generally, the preferred handling approach is dictated by the IC package type. ICs with leads on only two sides, such as dual-in-line and Small Outline (SOIC), are usually handled in gravity feed equipment. ICs with leads on all four sides, such as the Quad Flat Pack and certain ICs with leads on two sides, such as the TSOP, are typically run in pick-and-place systems. Delta Design's Semiconductor Test Handling Equipment systems utilize pick-and-place handling approaches while Daymarc's equipment employs gravity feed techniques. The two product lines are complementary, with effectively no overlap.

As a significant portion of IC test is performed at hot and/or cold temperatures, many of the Company's test handlers are designed to provide a controlled test environment over the range -60 degrees C to +160 degrees C. Both Delta Design and Daymarc are recognized throughout the industry for their expertise in hot/cold test handling. In addition to temperature capability, other key factors in the design of test handlers are equipment speed, flexibility, parallel test capability and size.

Handlers are complex, electromechanical systems which are used continuously in high production environments, and many are in service twenty-four hours per day, seven days a week. Handler "uptime" is a critically important issue to customers and the availability of trained technical support personnel is a key competitive factor in the marketplace. For these reasons, the Company employs direct sales and service engineers wherever possible, including Southeast Asia, where over 50% of IC testing takes place.

In 1996, after five years of unprecedented growth, the semiconductor industry went into a downturn. Semiconductor manufacturers found themselves with too much manufacturing capacity and many sharply reduced capital spending. Suppliers of equipment to the semiconductor industry, such as Delta Design and Daymarc, felt the effects of this slowdown in lower order rates, reduced backlog, and less visibility from customers concerning future purchase plans. Both Delta Design and Daymarc took steps throughout the year to reduce production rates and control costs in this uncertain operating environment.

The Company believes that the long-term prospects for the semiconductor industry are excellent. VLSI Research forecasts that the semiconductor industry will grow on average at an annual rate of 20% through 2001. Equipment suppliers, like Delta Design and Daymarc, must be prepared for the volatility that characterizes the semiconductor business but should continue to have exciting business opportunities in a dynamic growth industry.

DELTA DESIGN

Through the use of IC package dedication kits, Delta Design's pick-and-place test handlers are capable of accommodating virtually any semiconductor package type. This flexibility is a key requirement of semiconductor manufacturers, who must continuously produce new IC package types to meet the needs of their customers and the requirements of IC design engineers.

Delta is believed to have the largest installed base of pick-and-place test handlers, with more than 1,300 systems installed at over 100 locations worldwide.

Historically, most pick-and-place handlers have been used in logic test applications, where the transition in packaging technology first occurred. Because of the relatively short test times of logic devices, handler index time, or the idle time between test cycles, is critical. Two of Delta's pick-and-place handlers are believed to have among the fastest index times in the industry.

Increasingly, the shift in packaging is taking place in memory packages, as well. Due to the longer test times associated with memory testing, simultaneous testing of multiple devices (parallel testing) is required. Delta has successfully adapted several of its handlers to test up to eight devices in parallel and is developing systems capable of testing 16 or more devices in parallel.

The Delta Turbo Flex(TM), available in three models with various levels of automation, provides hot/cold test capability and unmatched versatility in IC package and media (tray or tube) handling. The "Flex" is considered an industry workhorse, and more Flexes have been sold than any other pick-and-place test handler. Through Delta's continuous product improvement process, the Flex has been successfully adapted to meet the evolving needs of IC manufacturers.

The Model 2040, or RFS(TM), is a fast-index time pick-and-place handler, designed for high production applications. The handler's large environmental storage capacity enables uninterrupted operation in short test applications and parallel testing of up to four devices. The RFS(TM) utilizes a patented contactor indexing mechanism to achieve an index time of approximately 500 milliseconds.

The Model 1688 is an ambient pick-and-place handler, which uses the same fast contactor indexing mechanism as the RFS(TM). The small size footprint of only eleven square feet, combined with the high speed and dependable operation of this handler, make it a highly-cost effective solution for test applications where environmental capability is not required.

DELTA RFS, HIGH PRODUCTION HANDLER

DAYMARC

Daymarc, which was acquired by Cohu in June 1994, was established in 1959 and was the first equipment company to introduce a gravity feed, fully automatic test handler.

The Company relocated during March 1996 to a larger facility in Littleton, Massachusetts approximately 30 miles from Boston. The Littleton facility has 102,000 square feet and is twice the size of the former facility. The new facility, with expansion options for future growth, will support Daymarc's needs for the foreseeable future.

Daymarc test handlers are designed to deliver high throughput, maximize operator productivity and increase yields through proprietary, high performance contacting technology.

Daymarc manufactures three lines of test handlers; the 717 Series, 3000 Series and 4000 Series. The 717 Series test handlers are designed specifically for SOIC packages. The small dimensions and high speed applications of the SOIC package require a handler with minimal transition distances, high performance contacting and automation features to reduce the need for operator intervention. The 717 ambient and tri-temperature handlers feature index times of 350 and 500 milliseconds, respectively. Changeover for a different device package requires less than 30 minutes.

The 3000 Series is available in single, dual/quad and thirty-two site configurations. These handlers can be reconfigured with device dedication kits to accommodate a wide range of package types at throughput rates up to 4,200 units per hour (UPH). The 3000 Series handlers provide tri-temperature operation and input/output automation for increased productivity.

The 4000 Series handlers combine high speed with multi-site capability. The first in the Series, the 4100, may operate at speeds up to 18,000 UPH in dual or quad site configurations. The 4100 is currently available as an ambient only handler and will eventually include a tri-temperature version with other configurations. The 4100, which occupies only seven square feet of floor space, is believed to be one of the fastest handlers available on the market.

DAYMARC 3287, 32 SITE GRAVITY FED HANDLER

TELEVISION AND OTHER EQUIPMENT

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The Electronics Division has been a leading American designer and manufacturer of closed circuit television (CCTV) cameras and systems for over 40 years. The customer base is broadly distributed between machine vision, scientific imaging and security/surveillance markets.

Sales reached new records in 1996, with gains in both original equipment manufacturing (OEM) and traffic surveillance products. The Division manufactures video cameras for a number of OEM companies that integrate Cohu cameras into their products. Cohu's reputation of quality products and manufacturing capability has made it an excellent choice in highway system surveillance cameras throughout the United States.

Other distribution channels for television products include direct sales to end users, contractors and value-added resellers. The Division is most readily differentiated from the competition by its willingness and ability to create quality products that solve a customer's unique requirements. Cohu's long established role in advanced CCTV technology is based on a continuing commitment to quality, product performance and competitiveness. The current product line represents a comprehensive array of indoor and outdoor CCTV cameras as well as camera control equipment.

Cohu cameras are ideally suited to video-based machine imaging systems and are used by numerous suppliers of these systems. Cameras are most commonly used for assembly, test and measurement applications. Opportunities for Cohu cameras also exist in scientific industries using video technology. The Division builds cameras that are integrated into systems for gel analysis, medical research, optical comparison and image cataloging.

Cohu is among the leaders in video systems for traffic management in the U.S. and is an OEM provider to a key manufacturer of wide area detection products for intersection control. In addition to sales of standard cameras to state and federal highway departments, the Division successfully demonstrated, then sold its new technology cameras which are capable of reading license plates in diverse sunlight conditions. More than 300 Cohu CCTV cameras were integrated into an existing system providing video surveillance of Atlanta's streets, freeways and rail system at the 1996 Olympics.

The Division continues to pursue opportunities in the international market through the support of existing distribution channels and OEM opportunities. Process monitoring and advanced imaging applications provide the majority of international sales. In 1996 a distribution agreement was signed with a major sales organization that will provide Cohu with increased exposure on the European continent.

The Division has been involved with a number of large scale construction projects where specialized design expertise is provided to major engineering firms. Typical installations include process monitoring for waste handling facilities, water works, hazardous material surveillance and

COHU CCTV CAMERAS USED FOR TOLL EVASION DETECTION

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facility security. Advances in digital imaging software may provide increased opportunities for Cohu systems and cameras in surveillance and process control applications.

The Division is registered compliant to ISO-9001 standards, the most rigid of five levels of standards in the ISO 9000 series. ISO registration is a competitive advantage in market areas where ISO 9000 is heavily supported, such as Europe and the Middle East.

In 1997 key markets for Cohu CCTV products will include applications for transportation, machine vision, microscopy and surveillance.

FRL

Fisher Research Laboratory (FRL) designs, manufactures and sells metal detectors and related underground detection devices for industrial and hobby markets. All products are sold under the Fisher M-Scope label.

Industrial products include pipe and cable locators, buried-cable fault locators, water leak detectors, property marker locators and instruments for finding reinforcing bars in concrete. Fisher's new XLT-20 water leak detector can detect the sound of escaping water and pinpoint small leaks in buried pipes to a depth of six feet.

Consumer metal detectors include models for prospectors, sport divers, relic hunters and weekend treasure hunters. As with the industrial line, Fisher's consumer products have a well earned reputation for quality, performance and durability. As a result, many of the metal detectors designed for the hobby market are used by law enforcement officials, archaeologists and professional treasure salvors.

Fisher products are sold world wide with major markets in the U.S., Western Europe, Canada and the Pacific rim. Emerging markets include such countries as Russia, China and Turkey. Export sales were nearly 30% of sales in 1996.

BMS

Broadcast Microwave Services, Inc. (BMS) manufactures high quality microwave radio equipment, antenna systems and related support items. These products are used in the transmission of telemetry, data, video and audio signals. Customers include government test ranges, law enforcement agencies, unmanned air vehicle programs and television broadcasters.

BMS has seen an increase in business related to unmanned air vehicles and this trend may continue as government related projects consider switching from large development programs to available standard equipment. This application requires transmitters, receivers, airborne antennas and automatic tracking antenna and control systems. Similar products are also being sold for coastal surveillance applications.

We believe opportunities in the broadcast television market may exist as older point-to-point microwave links and ENG (electronic news gathering) equipment is replaced. New product development has been directed at these markets. Additional growth opportunities may be created in the future as television stations add the capability to transmit High Definition Television signals.

CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

ASSETS	December 31,	
	1996	1995
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 24,660	\$ 28,874
Short-term investments	28,326	-
Accounts receivable less allowance for doubtful accounts of \$1,827 in 1996 and \$1,565 in 1995	19,170	27,572
Inventories, at lower of average cost or market:		
Finished goods	2,395	3,466
Work in process	6,012	7,759
Material and parts	7,175	10,019
	-----	-----
	15,582	21,244
Deferred income taxes	9,681	9,413
Prepaid expenses	1,166	973
	-----	-----
Total current assets	98,585	88,076
Property, plant and equipment, at cost:		
Land and land improvements	2,114	1,150
Buildings and building improvements	11,932	10,355
Machinery and equipment	14,069	11,697
	-----	-----
	28,115	23,202
Less accumulated depreciation and amortization	11,304	10,031
	-----	-----
Net property, plant and equipment	16,811	13,171
Goodwill, net of accumulated amortization of \$658 in 1996 and \$501 in 1995	2,469	2,626
Other assets	61	61
	-----	-----
	\$117,926	\$103,934
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,464	\$ 7,453
Commissions payable	1,565	1,735
Income taxes payable	1,552	7,062
Accrued compensation and benefits	6,291	7,881
Accrued warranty	2,726	2,567
Other accrued liabilities	3,984	4,150
	-----	-----
Total current liabilities	20,582	30,848
Accrued retiree medical benefits	916	859
Deferred income taxes	156	198
Commitments		
Stockholders' equity:		
Preferred stock, \$1 par value; 1,000 shares authorized, none issued	-	-
Common stock, \$1 par value; 25,000 shares authorized, 9,341 shares issued and outstanding in 1996 and 9,092 shares in 1995	9,341	9,092
Paid in excess of par	5,863	4,252
Retained earnings	81,068	58,685
	-----	-----
Total stockholders' equity	96,272	72,029
	-----	-----
	\$117,926	\$103,934
	=====	=====

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

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(in thousands, except per share amounts)

	Years ended December 31,		
	1996	1995	1994
	-----	-----	-----
Net sales	\$159,353	\$ 178,759	\$ 102,726
Cost and expenses:			
Cost of sales	88,578	107,714	64,323
Research and development	13,968	10,192	7,477
Selling, general and administrative	19,928	22,623	14,162
	-----	-----	-----
Income from operations	36,879	38,230	16,764
Interest income	1,960	704	60
Interest expense	-	(12)	(206)
	-----	-----	-----
Income before income taxes	38,839	38,922	16,618
Provision for income taxes	14,600	15,300	6,500
	-----	-----	-----
Net income	\$ 24,239	\$ 23,622	\$ 10,118
	=====	=====	=====
Net income per share	\$ 2.50	\$ 2.46	\$ 1.15
	=====	=====	=====
Average common shares and equivalents	9,677	9,584	8,816
	=====	=====	=====

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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(in thousands)

	Years ended December 31,		
	1996	1995	1994
	----	----	----
Cash flows from operating activities:			
Net income	\$24,239	\$23,622	\$10,118
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	1,653	1,884	1,181
Purchase consideration paid with stock	589	1,593	-
Deferred income taxes	(310)	(6,929)	(1,886)
Increase in accrued retiree medical benefits	57	58	58
Changes in assets and liabilities, net of effects from purchase of Daymarc:			
Accounts receivable	8,402	(7,085)	(8,332)
Inventories	5,662	7,197	(3,116)
Prepaid expenses	(193)	(335)	(261)
Accounts payable	(2,989)	1,071	3,032
Commissions payable	(170)	(482)	642
Income taxes payable	(5,200)	5,132	490
Accrued compensation, warranty and other liabilities	(1,597)	7,295	1,312
	-----	-----	-----
Net cash provided from operating activities	30,143	33,021	3,238
Cash flows from investing activities:			
Purchases of short-term investments	(28,326)	-	-
Purchase of Daymarc, net of cash acquired	-	-	(3,590)
Purchases of property, plant and equipment	(5,136)	(5,287)	(1,020)
Other assets	-	1	(29)
	-----	-----	-----
Net cash used for investing activities	(33,462)	(5,286)	(4,639)
Cash flows from financing activities:			
Reduction in line of credit and long-term borrowings	-	(1,400)	(2,600)
Proceeds from long-term borrowings	-	-	4,000
Issuance of stock, net	961	836	202
Dividends paid	(1,856)	(1,393)	(1,016)
	-----	-----	-----
Net cash provided from (used for) financing activities	(895)	(1,957)	586
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	(4,214)	25,778	(815)
Cash and cash equivalents at beginning of year	28,874	3,096	3,911
	-----	-----	-----
Cash and cash equivalents at end of year	\$24,660	\$28,874	\$ 3,096
	=====	=====	=====
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Income taxes	\$20,110	\$17,097	\$ 7,047
Interest	-	12	206
Liabilities assumed in purchase of Daymarc	-	-	4,971

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

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

	Years ended December 31, 1996, 1995 and 1994			
	Common Stock \$1 par value	Paid excess of par	Retained earnings	Total
	-----	-----	-----	-----
Balance at December 31, 1993	\$4,053	\$2,184	\$27,354	\$33,591
Cash dividends - \$.12 per share	-	-	(1,016)	(1,016)
Daymarc acquisition	298	4,178	-	4,476
Repurchase and retirement of stock	(2)	(25)	-	(27)
Exercise of stock options	56	173	-	229
Net income	-	-	10,118	10,118
	-----	-----	-----	-----
Balance at December 31, 1994	4,405	6,510	36,456	47,371
Two-for-one stock split	4,405	(4,405)	-	-
Cash dividends - \$.16 per share	-	-	(1,393)	(1,393)
Daymarc acquisition	62	1,531	-	1,593
Repurchase and retirement of stock	(6)	(114)	-	(120)
Exercise of stock options	226	730	-	956
Net income	-	-	23,622	23,622
	-----	-----	-----	-----
Balance at December 31, 1995	9,092	4,252	58,685	72,029
Cash dividends - \$.20 per share	-	-	(1,856)	(1,856)
Daymarc acquisition	29	560	-	589
Repurchase and retirement of stock	(1)	(30)	-	(31)

Exercise of stock options	221	771	-	992
Tax benefit from stock options	-	310	-	310
Net income	-	-	24,239	24,239
	-----	-----	-----	-----
Balance at December 31, 1996	\$9,341	\$5,863	\$81,068	\$96,272
	=====	=====	=====	=====

See accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRESENTATION - The consolidated financial statements include the accounts of Cohu, Inc. (the "Company") and its wholly-owned subsidiaries. All significant intercompany accounts and balances have been eliminated in consolidation. Reclassification has been made to certain prior year amounts to conform to the 1996 presentation.

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 the Company's investments are classified as available-for-sale and are reported at fair value with unrealized gains and losses, net of tax, recorded in stockholders' equity. Gross unrealized gains and losses were not significant at December 31, 1996 and 1995. The Company manages its cash equivalents and short-term investments as a single portfolio of highly marketable securities, all of which are intended to be available for the Company's current operations.

CONCENTRATION OF CREDIT RISK - Financial instruments that potentially subject the Company to significant credit risk consist principally of cash equivalents, short-term investments and trade accounts receivable. The Company invests in a variety of financial instruments and by policy limits the amount of credit exposure with any one issuer. The Company's customers include semiconductor manufacturers and others located throughout the world. The Company performs ongoing credit evaluations of its customers and generally requires no collateral from them.

DEPRECIATION AND AMORTIZATION - Depreciation and amortization of property, plant and equipment is calculated principally on the straight-line method based on estimated useful lives of five to forty years for buildings and building improvements and three to ten years for machinery and equipment. Goodwill is being amortized on the straight-line method over twenty years.

INCOME PER SHARE - Per share information is based on the weighted average number of shares outstanding during each period and the dilutive effect of the assumed exercise of stock options.

REVENUE RECOGNITION - Revenue is generally recognized upon shipment or, in instances where products are required to meet certain customer requirements, upon successful completion of such requirements. Product warranty costs are accrued in the period sales are recognized.

STOCK BASED COMPENSATION - The Company grants stock options for a fixed number of shares to employees and outside directors. The Company accounts for stock option grants in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees, and recognizes no compensation expense for such option grants. Had compensation cost for the Company's 1995 and 1996 option grants been determined consistent with FASB Statement 123, Accounting for Stock-Based Compensation, the impact on net income and net income per share would not have been significant.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about the future that effect the amounts reported in the consolidated financial statements. These estimates include assessing the collectibility of accounts receivable, the usage and recoverability of inventory and long-lived assets and the incurrence of warranty costs. The actual results could differ from those estimates.

2. ACQUISITION OF DAYMARC

In June 1994 the Company acquired Daymarc Corporation in a transaction accounted for as a purchase. The Company's consolidated financial statements include the results of Daymarc from June 1994 forward. If the acquisition had occurred on January 1, 1994 the Company's unaudited pro forma net sales, net income and net income per share for the year ended December 31, 1994 would have been \$114,988,000, \$11,688,000 and \$1.28, respectively. In 1996, 1995 and 1994 performance-based consideration and compensation totaling \$1,472,000, \$3,982,000 and \$833,000, respectively, was earned and charged to operations.

3. INVESTMENTS

Investments at December 31, 1996 and 1995, all with maturities of one year or less, were as follows:

(in thousands)	1996	1995
	-----	-----
U.S. Treasuries and obligations of U.S. Government Agencies	\$ 9,880	\$ 10,069
Corporate debt securities	26,322	-
Bankers Acceptances	5,847	-
	-----	-----
Total investments	42,049	10,069
Less amounts classified as cash equivalents	(13,723)	(10,069)
	-----	-----
Short-term investments	\$ 28,326	\$ -

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At December 31, 1996 and 1995 the estimated fair value of the Company's investments approximated amortized cost.

4. LINE OF CREDIT

The Company maintains a \$5,000,000 unsecured bank line-of-credit facility bearing interest at the bank's prime reference rate. The facility requires compliance with certain financial covenants and expires in May 1998. No borrowings were outstanding at December 31, 1996 or 1995.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. INCOME TAXES

Significant components of the provision for income taxes are as follows:

(in thousands)	1996	1995	1994
	-----	-----	-----
Current:			
Federal	\$12,283	\$18,154	\$6,404
State	2,627	4,075	1,982
	-----	-----	-----
Total current	14,910	22,229	8,386
Deferred:			
Federal	(256)	(5,627)	(1,458)
State	(54)	(1,302)	(428)
	-----	-----	-----
Total deferred	(310)	(6,929)	(1,886)
	-----	-----	-----
	\$14,600	\$15,300	\$6,500
	=====	=====	=====

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 the Company's deferred tax assets and liabilities are as follows:

(in thousands)	1996	1995
	-----	-----
Deferred tax assets:		
Reserves and accrued warranty not currently deductible	\$ 8,634	\$ 8,284
Accrued state taxes	584	784
Accrued employee benefits	966	926
Other	421	202
	-----	-----
Total deferred tax assets	10,605	10,196
	=====	=====
Deferred tax liabilities:		
Tax over book depreciation	1,080	981
	-----	-----
Net deferred tax assets	\$9,525	\$9,215
	=====	=====

The reconciliation of income tax computed at the U.S. federal statutory tax rates to the provision for income taxes is as follows:

(in thousands)	1996	1995	1994
	-----	-----	-----
Tax at U.S. statutory rates	\$13,594	\$13,623	\$5,816
State income taxes, net of federal tax benefit	1,672	1,827	1,026
FSC benefit	(1,100)	(1,278)	(228)
Nondeductible goodwill and performance-based consideration expense	261	799	34
Other - net	173	329	(148)
	-----	-----	-----
	\$14,600	\$15,300	\$6,500
	=====	=====	=====

6. STOCKHOLDER RIGHTS PLAN

In November 1996 the Company adopted a Stockholder Rights Plan and declared a dividend distribution of one Right for each share of Common Stock, payable to holders of record on December 3, 1996. Under certain conditions, each Right may be exercised to purchase 1/100 of a share of Series A Preferred Stock at a purchase price of \$90, subject to adjustment. 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 14, 2006 and may be redeemed by the Company for \$0.001 per Right. The Rights do not have voting or dividend rights

and, until they become exercisable, have no dilutive effect on the net income per share of the Company.

7. INFORMATION ON INDUSTRY SEGMENTS

The Company operates in two industry segments. Semiconductor test handling equipment is designed, manufactured and sold to semiconductor manufacturers throughout the world and accounted for 79% of 1996 consolidated net sales. The television and other equipment segment includes electronic products used in electronic imaging, surveillance, detection and microwave communication that are manufactured and sold to government agencies, original equipment manufacturers, contractors, distributors and consumers throughout the world. Export sales, mainly to the Far East and Europe, were approximately \$71,700,000, \$72,000,000 and \$37,900,000 in 1996, 1995 and 1994, respectively. One customer of the test handling equipment segment accounted for 12%, 17% and 22% of net sales 1996, 1995 and 1994, respectively. Another customer of the same segment accounted for 14%, 17% and 10% of net sales in 1996, 1995 and 1994, respectively. Information regarding industry segments for 1996, 1995 and 1994 contained in the Selected Financial Data on page 3 is an integral part of these financial statements.

8. EMPLOYEE BENEFIT PLANS

RETIREMENT PLAN - The Company has a voluntary defined contribution retirement 401(k) plan whereby it will match contributions up to 4% of employee compensation. Company contributions to the plan were \$841,000 in 1996, \$737,000 in 1995 and \$700,000 in 1994.

RETIREE MEDICAL BENEFITS -- The Company provides postretirement health benefits under a noncontributory plan to certain executives and directors. The net periodic benefit cost was \$78,000, \$68,000 and \$65,000 in 1996, 1995 and 1994, respectively. The accumulated postretirement benefit obligation at December 31, 1996 consisted of \$397,000 attributable to retired employees, \$280,000 to active eligible employees and \$239,000 attributable to other active employees. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.5%. Annual rates of increase of the cost of health benefits were assumed to be approximately 9.25% in 1996. These rates were then assumed to decrease 0.25% per year to 6% in 2009 and remain level thereafter. A 1% increase in the rate would increase the net periodic benefit cost by approximately \$14,000 and the accumulated post-retirement benefit obligation as of December 31, 1996 by approximately \$150,000.

STOCK OPTIONS - Under the Company's stock option plans, options may be granted to key employees and outside directors to purchase shares of the Company's common stock at prices not less than 100% of the fair market value at the date of grant. The Cohu, Inc. 1996 Outside Directors Stock Option Plan was adopted in November 1996 and is subject to stockholder approval. Options become exercisable from one-third to one-fourth annually beginning one year after the grant date and expire 5 to 10 years from the grant date. In November 1996 options to purchase a total of 239,750 shares were granted to employees in exchange for an equal number of canceled options pursuant to an exchange plan approved by the Board of Directors. The newly granted options have exercise prices equal to the fair market value on the date of grant and become exercisable over the four year period ended November 2000. At December 31, 1996 328,900 and 70,000 shares were available for future grants under the employee and outside director plans, respectively.

Stock option activity under all option plans was as follows:
(in thousands, except per share data)

	1996		1995		1994	
	Shares	Wt. Avg. Ex. Price	Shares	Wt. Avg. Ex. Price	Shares	Wt. Avg. Ex. Price
Outstanding, beginning of year	878	\$ 9.11	1,022	\$ 6.20	672	\$ 5.50
Granted	471	20.17	114	24.97	490	6.24
Exercised	(221)	4.48	(226)	4.23	(112)	2.04
Canceled/Forfeited	(289)	24.41	(32)	6.86	(28)	3.92
Outstanding, end of year	839	11.28	878	9.11	1,022	6.20
Options exercisable at year end	378	7.74	399	5.80	414	3.74

The estimated weighted average fair value of options granted during 1996 and 1995 was \$9.24 and \$11.48, respectively. The fair value of each option grant was estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions for 1995 and 1996: risk-free interest rates ranging from 5.5% to 6.8%; dividend yield of 1%; expected life of 5 years and volatility of 48%.

Information about stock options outstanding at December 31, 1996 is as follows:

(options in thousands)

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/96	Approximate Remaining Life	Wt. Avg. Ex. Price	Number Exercisable at 12/31/96	Wt. Avg. Ex. Price
\$ 1.65	8	2 years	\$ 1.65	8	\$ 1.65
7.60 to 9.69	518	5 years	7.88	367	7.78
17.00 to 20.75	313	10 years	17.17	3	19.50
	839			378	
	===			===	

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Cohu, Inc.

We have audited the accompanying consolidated balance sheets of Cohu, Inc. as of December 31, 1996 and 1995, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31,

1996, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

San Diego, California
February 3, 1997

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RESULTS OF OPERATIONS

1996 COMPARED TO 1995

Net sales decreased 11% to \$159.4 million in 1996 compared to net sales of \$178.8 million in 1995. Sales of semiconductor test handling equipment declined 14% in 1996 and accounted for 79% of consolidated net sales in 1996 versus 82% in 1995. The decline in semiconductor equipment sales reflected the semiconductor industry downturn experienced in 1996. Sales of television cameras and other equipment increased 1%. Export sales accounted for 45% of net sales in 1996 compared to 40% in 1995.

Gross margin as a percentage of net sales was 44% in 1996 versus 40% in 1995 as a result of increased margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins increased in 1996 as a result of a significant reduction in provisions for excess and obsolete inventories and warranty from 1995 levels. These provisions were recorded due to the risks and uncertainties in the semiconductor equipment industry (see "Business Risks and Uncertainties"). The gross margin in 1995 would have been higher than the 1996 margin absent such provisions. Research and development expense as a percentage of net sales was 9% in 1996 up from 6% in 1995 and reflected the Company's increased investment in new product development, particularly in the semiconductor equipment business. Selling, general and administrative expense as a percentage of net sales remained at 13% as a reduction in certain performance based compensation charges was offset by an increase in other selling and administrative expenses in the 1996 period. Interest income in 1996 increased 178% to \$2 million due to the significant increase in cash equivalents and short-term investments.

The provision for income taxes expressed as a percentage of pre-tax income was 38% in 1996 and 39% in 1995. The decrease in the effective tax rate was largely attributable to a decline in nondeductible expenses.

1995 COMPARED TO 1994

Net sales increased 74% to \$178.8 million in 1995 compared to \$102.7 million in 1994. Sales of semiconductor test handling equipment by Delta Design and Daymarc increased 102% and accounted for 82% of net sales in 1995 versus 71% in 1994. Daymarc was acquired in June 1994 and its operating results are included from that date forward. Net sales of television and other equipment increased 8% and accounted for 18% of net sales in 1995. Export sales accounted for 40% of net sales in 1995 compared to 37% in 1994.

Gross margin as a percentage of net sales was 40% in 1995 and 37% in 1994. The increase in margin was due to the increasing percentage of total net sales attributable to semiconductor equipment which has higher margins than television and other equipment. Within the semiconductor equipment segment margins improved due to production efficiencies, volume material purchase discounts and price increases in certain product lines offset by increased provisions for excess and obsolete inventories and warranty. Research and development expense increased to \$10.2 million in 1995 although as a percentage of net sales it decreased to 6% versus 7% in 1994. Selling, general and administrative expense increased 60% in 1995 over 1994 but decreased as a percentage of net sales to 13% from 14% in 1994 as the revenue growth rate exceeded the growth rate in this expense area.

The effective tax rate was 39% in 1995 and 1994. The effective rate was substantially unchanged from 1994 as increased benefits from the Company's foreign sales corporation were offset by the effect of nondeductible expenses.

LIQUIDITY AND CAPITAL RESOURCES

The Company's net cash flows generated from operating activities in 1996 totaled \$30.1 million. The major components of cash flows from operating activities were net income of \$24.2 million and decreases in accounts receivable of \$8.4 million and inventories of \$5.7 million offset by decreases in accounts payable, income taxes payable and other accrued liabilities totaling \$10 million. Net cash used for investing activities was \$33.5 million and was used for the purchase of short-term investments and property, plant and equipment. Net cash used for financing activities was \$.9 million. Cash used for financing activities included \$1.9 million for

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

the payment of dividends offset by \$1 million received from the issuance of stock upon the exercise of stock options. The Company had \$5 million available under its bank line of credit and working capital of \$78 million at December 31, 1996. It is anticipated that present working capital and cash generated from operations will be sufficient to meet the Company's 1997 operating requirements including estimated capital expenditures during 1997 of approximately \$5 million.

BUSINESS RISKS AND UNCERTAINTIES

The Company's operating results are substantially dependent on the semiconductor test handling equipment business conducted through its Delta Design and Daymarc subsidiaries. This capital equipment business is in turn highly dependent on the overall strength of the semiconductor industry. Historically, the semiconductor industry has been highly cyclical with recurring periods of oversupply, which often have had a significant effect on the semiconductor industry's demand for capital equipment, including equipment of the type manufactured and marketed by the Company. The Company believes that the markets for newer generations of semiconductors may also be subject to similar cycles and downturns such as that experienced in 1996. Reductions in capital equipment investment by semiconductor manufacturers will adversely affect the Company's results of operations.

As is common in the semiconductor equipment industry, the Company relies on a limited number of customers for a substantial percentage of its net sales. The loss of or a significant reduction in orders by these customers would adversely impact the Company's results of operations. Furthermore, the concentration of the Company's revenues in a limited number of large customers may cause significant fluctuations in the Company's future annual and quarterly operating results.

The semiconductor equipment industry is intensely competitive and the Company faces substantial competition from numerous companies throughout the world. Some of these competitors have substantially greater financial, engineering, manufacturing, and customer support capabilities than the Company. In addition, there are smaller, emerging semiconductor equipment companies that provide or may provide innovative technology incorporated in products that may compete favorably against those of the Company. The Company expects its competitors to continue to improve the design and performance of their current products and to introduce new products with improved performance capabilities. Failure to introduce new products in a timely manner, the introduction by competitors of products with perceived or actual advantages or disputes over rights of the Company or its competitors to use certain intellectual property or technology could result in a loss of the Company's competitive position and reduced sales of existing products.

Semiconductor equipment and processes are subject to rapid technological change. The Company believes that its future success will depend in part on its ability to enhance existing products and develop new products with improved performance capabilities. The Company expects to continue to invest heavily in research and development and must manage product transitions successfully as introductions of new products could adversely impact sales of existing products. There can be no assurance that future technologies, processes and product developments will not render the Company's current product offerings obsolete or that the Company will be able to develop and introduce new products or enhancements to its existing products in a timely manner to satisfy customer needs or achieve market acceptance.

Due to these and other factors, historical results may not be indicative of results of operations for any future period. In addition, certain matters discussed above are forward-looking statements that are subject to the risks and uncertainties noted herein and the other risks and uncertainties listed from time to time in the Company's filings with the Securities and Exchange Commission, including but not limited to the 1996 Annual Report on Form 10-K, that could cause actual results to differ materially from those projected or forecasted. The Company undertakes no obligation to update the information, including the forward-looking statements, in this Annual Report.

BOARD OF DIRECTORS

WILLIAM S. IVANS
Chairman of the Board
of the Company

JAMES W. BARNES
Retired President and Chief
Executive Officer of the Company

HARRY L. CASARI
Retired Partner
Ernst & Young LLP

FRANK W. DAVIS
Retired President of Convair
Aerospace Division of
General Dynamics

GENE E. LEARY
Retired Executive at
Honeywell, Inc. and
Control Data Corporation

CHARLES A. SCHWAN
President and Chief Executive
Officer of the Company

CORPORATE OFFICERS

CHARLES A. SCHWAN
President and Chief Executive
Officer

JOHN H. ALLEN
Vice President, Finance and
Chief Financial Officer, Secretary

TRANSFER AGENT AND REGISTRAR
ChaseMellon Shareholder Services, L.L.C.
P.O. Box 469
Washington Bridge Station
New York, NY 10033
(800) 356-2017

INDEPENDENT AUDITORS
Ernst & Young LLP
San Diego, California

LEGAL COUNSEL
Gray Cary Ware & Freidenrich
San Diego, California

COHU STOCK INFORMATION
Cohu, Inc. stock is traded on the NASDAQ
National Market System
under the symbol "COHU."

The following table sets forth the high and low sales prices as reported on the NASDAQ National Market System during the last two years.

	1996		1995	
	HIGH	LOW	High	Low
First Quarter	36.25	20.75	16.38	10.88
Second Quarter	26.75	17.75	24.38	13.88
Third Quarter	21.00	14.75	36.00	23.75
Fourth Quarter	24.13	14.75	33.50	23.50

At December 31, 1996 the Company had approximately 10,000 stockholders of record and holders in street name.

A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION FOR 1996 AND OTHER INFORMATION ABOUT COHU IS AVAILABLE WITHOUT CHARGE BY CONTACTING:

Investor Relations
Cohu, Inc.
5755 Kearny Villa Road
San Diego, CA 92123
(619) 514-6203

or visit our website at <http://www.cohu.com>

ANNUAL MEETING

The annual meeting of stockholders will be held at 2:00 p.m.
on Tuesday, May 6, 1997 at the Company's corporate headquarters.

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Cohu, Inc. of our report dated February 3, 1997, included in the 1996 Annual Report to Stockholders of Cohu, Inc.

We also consent to the incorporation by reference in the Registration Statements (Form S-8) and in the related Prospectuses of our report dated February 3, 1997, with respect to the consolidated financial statements of Cohu, Inc., incorporated by reference in the Annual Report (Form 10-K) for the year ended December 31, 1996.

ERNST & YOUNG LLP

San Diego, California
March 14, 1997

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM 1996
FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH
FINANCIAL STATEMENTS

1,000

YEAR	
DEC-31-1996	
JAN-01-1996	
DEC-31-1996	24,660
	28,326
	19,170
	0
	15,582
98,585	
	28,115
	11,304
	117,926
20,582	
	0
0	
	0
	9,341
	86,931
117,926	
	159,353
159,353	
	88,578
	88,578
	0
	0
	0
	38,839
	14,600
24,239	
	0
	0
	0
	24,239
	2.50
	2.50