

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

FORM 10-Q

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

For the quarterly period ended September 30, 1998

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
Incorporation or Organization)

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

5755 KEARNY VILLA ROAD, SAN DIEGO, CALIFORNIA

92123

(Address of principal executive office)

(Zip Code)

Registrant's telephone number, including area code

619-277-6700

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 ☐

As of September 30, 1998, the Registrant had 9,738,092 shares of its \$1.00 par value common stock outstanding.

COHU, INC.
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FORM 10-Q
SEPTEMBER 30, 1998

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COHU, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

ASSETS	SEPTEMBER 30, 1998	DECEMBER 31, 1997
	----- (Unaudited)	-----
Current assets:		
Cash and cash equivalents	\$ 61,368	\$ 39,736
Short-term investments	8,065	13,814
Accounts receivable, less allowance for doubtful accounts of \$1,388 in 1998 and \$1,787 in 1997	27,632	31,934
Inventories:		
Raw materials and purchased parts	16,489	21,224
Work in process	8,242	15,657
Finished goods	9,645	8,018
	-----	-----
	34,376	44,899
Deferred income taxes	9,669	9,669
Prepaid expenses	1,510	1,478
	-----	-----
Total current assets	142,620	141,530
Property, plant and equipment, at cost:		
Land and land improvements	2,501	2,501
Buildings and building improvements	12,102	11,906
Machinery and equipment	18,477	17,524
	-----	-----
	33,080	31,931
Less accumulated depreciation and amortization	14,415	12,982
	-----	-----
Net property, plant and equipment	18,665	18,949
Goodwill, net of accumulated amortization of \$933 in 1998 and \$815 in 1997	2,194	2,312
Other assets	93	101
	-----	-----
	\$163,572	\$162,892
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,246	\$ 16,166
Income taxes payable	4,775	3,421
Other accrued liabilities	14,362	15,742
	-----	-----
Total current liabilities	22,383	35,329
Accrued retiree medical benefits	1,070	1,004
Deferred income taxes	348	348
Stockholders' equity:		
Preferred stock	--	--
Common stock	9,738	9,549
Paid in excess of par	10,387	8,677
Retained earnings	119,646	107,985
	-----	-----
Total stockholders' equity	139,771	126,211
	-----	-----
	\$163,572	\$162,892
	=====	=====

See accompanying notes.

COHU, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(in thousands, except per share amounts)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
	-----	-----	-----	-----
Net sales	\$ 34,277	\$ 52,769	\$146,170	\$132,173
Cost and expenses:				
Cost of sales	25,606	29,524	94,598	74,532
Research and development	4,726	4,744	16,032	12,269
Selling, general and administrative	4,226	5,700	16,641	15,686
	-----	-----	-----	-----
	34,558	39,968	127,271	102,487
	-----	-----	-----	-----
Income (loss) from operations	(281)	12,801	18,899	29,686
Interest income	847	726	2,396	2,181
	-----	-----	-----	-----
Income before income taxes	566	13,527	21,295	31,867
Provision for income taxes	100	5,000	7,300	11,700
	-----	-----	-----	-----
Net income	\$ 466	\$ 8,527	\$ 13,995	\$ 20,167
	=====	=====	=====	=====
Earnings per share:				
Basic	\$.05	\$.90	\$ 1.44	\$ 2.14
	=====	=====	=====	=====
Diluted	\$.05	\$.85	\$ 1.40	\$ 2.03
	=====	=====	=====	=====
Weighted average shares used in computing earnings per share:				
Basic	9,737	9,467	9,717	9,411
	=====	=====	=====	=====
Diluted	9,910	10,073	10,001	9,921
	=====	=====	=====	=====

See accompanying notes.

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997
	-----	-----
Cash flows from operating activities:		
Net income	\$ 13,995	\$ 20,167
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	2,012	1,351
Purchase consideration to be paid with stock	46	341
Increase in accrued retiree medical benefits	66	67
Changes in assets and liabilities:		
Accounts receivable	4,302	(16,414)
Inventories	10,523	(16,705)
Prepaid expenses	(32)	179
Accounts payable	(12,920)	9,680
Income taxes payable	1,354	3,074
Other accrued liabilities	(1,426)	530
	-----	-----
Net cash provided from operating activities	17,920	2,270
Cash flows from investing activities:		
Purchases of short-term investments	(17,098)	(23,779)
Maturities of short-term investments	22,847	22,679
Purchases of property, plant, equipment and other assets	(1,602)	(2,177)
	-----	-----
Net cash provided by (used for) investing activities	4,147	(3,277)
Cash flows from financing activities:		
Issuance of stock, net	1,899	1,138
Cash dividends	(2,334)	(1,698)
	-----	-----
Net cash used for financing activities	(435)	(560)
	-----	-----
Net increase (decrease) in cash and cash equivalents	21,632	(1,567)
Cash and cash equivalents at beginning of period	39,736	24,660
	-----	-----
Cash and cash equivalents at end of period	\$ 61,368	\$ 23,093
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 5,946	\$ 8,637

See accompanying notes.

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1998

1 - BASIS OF PRESENTATION

The accompanying interim financial statements are unaudited but include all adjustments (consisting of normal recurring adjustments) which Cohu, Inc. (the "Company") considers necessary for a fair statement of the results for the period. The operating results for the three and nine months ended September 30, 1998 are not necessarily indicative of the operating results for the entire year or any future period. These financial statements should be read in conjunction with the consolidated financial statements incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and management's discussion and analysis of financial condition and results of operations included elsewhere herein.

2 - EARNINGS PER SHARE

Earnings per share are computed in accordance with Financial Accounting Standards Board ("FASB") Statement No. 128, Earnings per Share. Basic earnings per share are computed using the weighted average number of common shares outstanding during each period. Diluted earnings per share include the dilutive effect of common shares potentially issuable upon the exercise of stock options. Earnings per share data for the three and nine months ended September 30, 1997 have been adjusted to conform to the provisions of FASB Statement No. 128. For purposes of computing diluted earnings per share, weighted average common share equivalents do not include stock options with an exercise price that exceeds the average fair market value of the Company's common stock for the period. For the three months ended September 30, 1998, options to purchase approximately 354,000 shares of common stock at an average price of \$33.21 were excluded from the computation, and for the nine months ended September 30, 1998, options to purchase approximately 198,000 shares of common stock at an average price of \$35.09 were excluded from the computation. The following table reconciles the denominators used in computing basic and diluted earnings per share:

	THREE MONTHS ENDED SEPTEMBER 30, 1998 1997		NINE MONTHS ENDED SEPTEMBER 30, 1998 1997	
	-----	-----	-----	-----
	(in thousands)		(in thousands)	
Weighted average common shares outstanding	9,737	9,467	9,717	9,411
Effect of dilutive stock options	173	606	284	510
	-----	-----	-----	-----
	9,910	10,073	10,001	9,921
	=====	=====	=====	=====

3 - STOCKHOLDERS' EQUITY

On May 12, 1998 the stockholders of the Company approved (i) the adoption of the Cohu, Inc. 1998 Stock Option Plan providing for the issuance of a maximum of 450,000 shares of the Company's Common Stock and (ii) an amendment to the Company's Amended and Restated Certificate of Incorporation increasing the Company's authorized shares of Common Stock to 40,000,000.

4 - NEW ACCOUNTING PRONOUNCEMENTS

FASB Statement No. 130, Reporting Comprehensive Income, requires the disclosure of "Comprehensive Income" in financial statements. Comprehensive Income includes items such as unrealized gains on available-for-sale securities that are not included in net income. FASB No. 130 is effective in 1998 and had no material impact on the Company's results of operations or related disclosures for the nine months ended September 30, 1998. FASB No. 131, Disclosures about Segments of an Enterprise and Related Information, requires the disclosure of financial information on operating segments on the basis used by management in evaluating segment performance and deciding how to allocate resources. FASB No. 131 will first be reflected in the Company's 1998 Annual Report.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1998

This Form 10-Q contains certain 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 "anticipate", "expect", "believe", and similar expressions are intended to identify such statements. 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.

RESULTS OF OPERATIONS

THIRD QUARTER 1998 COMPARED TO THIRD QUARTER 1997

In 1998 the Company was impacted by the worldwide slowdown in demand for semiconductor equipment and as a result net sales decreased 35% to \$34.3 million in 1998 compared to net sales of \$52.8 million in 1997. Sales of semiconductor test handling equipment in 1998 decreased 42% over the 1997 period and accounted for 75% of consolidated net sales in 1998 versus 84% in 1997. Sales of television cameras and other equipment decreased 13% while the combined sales of metal detection and microwave equipment increased 31%. Export sales accounted for 42% of net sales in the third quarter of 1998 compared to 52% for the year ended December 31, 1997.

Gross margin as a percentage of net sales declined to 25.3% in 1998 versus 44.1% in 1997 primarily due to lower margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins decreased in 1998 primarily as a result of reduced business volume, provisions for warranty and excess inventories, changes in product mix, sales price reductions and certain cost increases. During the third quarter of 1998 the Company shipped a significant number of its new Enterprise semiconductor test handlers. The gross margins realized on these sales were lower than the Company's established semiconductor handler products due primarily to higher estimated warranty and support costs. Research and development expense was virtually unchanged in the third quarter of 1998 but increased as a percentage of net sales to 13.8% in 1998 compared to 9% in 1997. Selling, general and administrative expense as a percentage of net sales increased to 12.3% in 1998 from 10.8% in 1997 primarily as a result of the decrease in business volume offset by a reduction in performance-based compensation expense. Interest income was \$.8 million in 1998 and \$.7 million in 1997. As a result of the factors set forth above, net income decreased from \$8.5 million in 1997 to \$.5 million in 1998.

NINE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1997

Net sales increased 11% to \$146.2 million in 1998 compared to net sales of \$132.2 million in 1997. Net sales during the first half of 1997 were negatively impacted by the semiconductor industry downturn that began in 1996. Sales of semiconductor test handling equipment in 1998 increased 12% over the 1997 period and accounted for 81% of consolidated net sales in 1998 versus 80% in 1997. Sales of television cameras and other equipment decreased 8% while the combined sales of metal detection and microwave equipment increased 28%. Export sales accounted for 44% of net sales in the first nine months of 1998 compared to 52% for the year ended December 31, 1997.

Gross margin as a percentage of net sales declined to 35.3% in 1998 from 43.6% in 1997 primarily due to lower margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins decreased in 1998 primarily as a result of changes in product mix, sales price reductions, certain cost increases and provisions for warranty and excess inventories. During the second and third quarters of 1998 the Company shipped a significant number of its new Enterprise semiconductor test handlers. The gross margins realized on these sales were lower than the Company's established semiconductor handler products due to manufacturing inefficiencies incurred in the early

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1998

NINE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1997 (CONT.)

stages of producing new equipment and higher estimated warranty and support costs. Research and development expense as a percentage of net sales was 11% in 1998, compared to 9.3% in 1997, increasing in absolute dollars from \$12.3 million to \$16.0 million reflecting 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 declined to 11.4% in 1998 from 11.9% in 1997 primarily as a result of the increase in business volume and a reduction in performance-based compensation expense. Interest income was \$2.4 million in 1998 and \$2.2 million in 1997. The provision for income taxes expressed as a percentage of pre-tax income was 34.3% in the first nine months of 1998. As a result of the factors set forth above, net income decreased from \$20.2 million in 1997 to \$14.0 million in 1998.

LIQUIDITY AND CAPITAL RESOURCES

The Company's net cash flows generated from operating activities in the first nine months of 1998 totaled \$17.9 million. The major components of cash flows from operating activities were net income of \$14.0 million, a decrease in accounts receivable of \$4.3 million and a decrease in inventories of \$10.5 million offset by a decrease in accounts payable of \$12.9 million. Net cash provided by investing activities was \$4.1 million resulting from maturities of short-term investments, less purchases, totaling \$5.7 million offset by purchases of property, plant and equipment and other assets of \$1.6 million. Net cash used for financing activities was \$.4 million. Cash used for financing activities included \$2.3 million for the payment of dividends offset by \$1.9 million received from the issuance of stock under stock option and purchase plans. The Company had \$10 million available under its bank line of credit and working capital of \$120.2 million at September 30, 1998. It is anticipated that present working capital and available borrowings under the line of credit will be sufficient to meet the Company's operating requirements for the next twelve months.

BUSINESS RISKS AND UNCERTAINTIES

The Company's operating results are substantially dependent on its semiconductor test handling equipment business. 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 and excess capacity, 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 severe downturns such as that experienced in 1996 and currently in 1998. Reductions in capital equipment investment by semiconductor manufacturers will adversely affect the Company's financial position and results of operations.

The Company's order backlog declined to \$24.0 million at September 30, 1998 from \$40.6 million at June 30, 1998. This reduction in backlog is primarily related to the Company's semiconductor equipment business. The decline in the Company's backlog and announcements by semiconductor equipment manufacturers and industry trade organizations indicate there has been a significant worldwide slowdown in demand for semiconductor equipment. The projected length and severity of this slowdown is unknown at this time. In addition, continued DRAM price weakness has negatively impacted the profitability of DRAM manufacturers which has impacted their capital equipment purchases. These and possible other factors are expected to negatively impact the Company's future operating results and as a result the Company expects to report a net loss for the fourth quarter of 1998.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1998

BUSINESS RISKS AND UNCERTAINTIES (CONT.)

During this period of uncertainty in the semiconductor equipment industry the Company will attempt to keep its production capacity, labor force and other aspects of its cost structure in line with expected demand.

The Company has reduced the size of its work force and there may be further reductions. Cost reduction measures may have a negative impact on the Company's operations and operating results. Furthermore, no assurance can be made that such cost reduction measures will be implemented successfully.

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 or margins of existing products. In addition, the introduction of new products increases the risk that existing products will become obsolete resulting in greater excess and obsolete inventory exposure. This increased exposure may result in increased inventory reserve requirements that could have a material adverse impact on the Company's financial condition and results of operations.

The design, development, manufacture and commercial introduction of new semiconductor test handling equipment is an inherently complex process that involves a number of risks and uncertainties. These risks include potential problems in meeting customer performance requirements, integration of the test handler with other suppliers' equipment and the customers' manufacturing processes and the ability of the equipment to satisfy the semiconductor industry's constantly evolving needs and achieve commercial acceptance at prices that produce satisfactory profit margins. The design and development of new test handling equipment is heavily influenced by changes in integrated circuit (IC) back-end manufacturing processes and IC package design changes. The Company believes that the rate of change in such processes and IC packages is accelerating. As a result of these changes and other factors, assessing the market potential and commercial viability of new test handling products is extremely difficult and subject to a great deal of risk. In addition, not all IC manufacturers employ the same manufacturing processes. Differences in such processes make it difficult to design standard semiconductor test handler products that are capable of achieving broad market acceptance. No assurance can be made that the Company will accurately assess the semiconductor industry's future test handler requirements and design and develop products that meet such requirements and achieve market acceptance. Failure to accurately assess customer requirements and market trends for new semiconductor test handler products may have a materially adverse impact on the Company's operations, financial condition and results of operations.

The Company has devoted significant resources to the development, introduction and volume production of two new semiconductor test handler products that were introduced in the second quarter of 1998. In the past, the Company has experienced delays in the introduction of new semiconductor test handlers and difficulties in the early stages of manufacturing and volume production of such products. The Company has incurred similar delays and difficulties with the two test handlers introduced in 1998. In addition, after sale support and warranty costs are typically greater with new test handlers than with established products. There can be no assurance that future technologies, processes and product developments will not render the Company's current or future product offerings obsolete or that the Company will be able to develop and

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1998

BUSINESS RISKS AND UNCERTAINTIES (CONT.)

introduce new products or enhancements to its existing products in a timely manner to satisfy customer needs or achieve market acceptance. Furthermore, there is no assurance that the Company will be able to convert new test handlers into production on a timely basis and realize acceptable profit margins on such products.

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 and have more extensive product offerings 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 or margins on existing products.

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. In 1997, three customers of the semiconductor equipment business accounted for 42% of the Company's net sales. The loss of or a significant reduction in orders by these or other significant 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.

In 1997, 52% of the Company's total net sales were exported to foreign countries, including 60% of the sales in the semiconductor equipment segment. The majority of the Company's export sales are made to destinations in Asia. Instability in global economic markets, particularly in Asia, may adversely impact the demand for capital equipment, including equipment of the type manufactured and marketed by the Company. In addition, changes in the amount or price of semiconductors produced in Asia could impact the profitability or capital equipment spending programs of the Company's foreign and domestic customers.

The Company has a Year 2000 (Y2K) Task Force focusing on four key readiness areas: 1) Internal Infrastructure Readiness, addressing internal hardware and software, and non-information technology systems; 2) Product Readiness, addressing the functionality of the Company's products; 3) Supplier Readiness, addressing the preparedness of key suppliers to the Company and 4) Customer Readiness, addressing customer support and transactional activity. For each readiness area, the Company is performing a risk assessment, conducting testing and remediation, developing contingency plans to mitigate unknown risk, and communicating with employees, suppliers, customers and other third parties to raise awareness of the Y2K problem.

Internal Infrastructure Readiness: The Company, assisted by third parties, is conducting an assessment of internal applications and computer hardware. Some software applications have been made Y2K compliant, and resources have been assigned to address other applications based on their importance and the time required to make them Y2K compliant. All software remediation is expected to be completed no later than

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1998

BUSINESS RISKS AND UNCERTAINTIES (CONT.)

June 1999. The Y2K compliance evaluation of hardware, including hubs, routers, telecommunication equipment, workstations and other items is expected to be completed by March 1999. In addition to applications and information technology hardware, the Company is developing remediation plans for embedded systems, facilities and other operations, such as financial and banking systems.

Product Readiness: This program focuses on identifying and resolving Y2K issues existing in the Company's products. The program encompasses a number of activities including testing, evaluation, engineering, and manufacturing implementation. Customers are being notified of known risk areas and proposed remediation plans. The Company plans to make Y2K retrofits available to certain customers during the first calendar quarter of 1999, and to have retrofits installed in the field by June 1999. A contingency team will be available after June 1999 to assist those customers experiencing difficulties with the Company's products.

Supplier Readiness: This program focuses on minimizing the risks associated with key suppliers. The Company has identified and contacted key suppliers to solicit information on their Y2K readiness. To date, the Company has received responses, most of which indicate that the suppliers are in the process of developing remediation plans, from a number of its key suppliers. Based on the Company's assessment of each supplier's progress to adequately address the Y2K issue, the Company will develop a supplier action list and contingency plans. Supplier readiness issues that potentially affect the Company's product retrofit program discussed above are targeted to be addressed by December 1998.

Customer Readiness: This program focuses on customer support, including the coordination of retrofit activity and developing contingency plans where appropriate. The program is in the process of being developed.

The Company estimates that total Y2K costs will be less than \$1 million with the majority of these costs to be incurred during the next three quarters. The Company is continuing its assessments and developing alternatives that will necessitate refinement of this estimate over time. There can be no assurance, however, that there will not be a delay in, or increased costs associated with, the programs described in this section.

Since the efforts described above are ongoing, all potential Y2K complications have not yet been identified. Therefore, the potential impact of these complications on the Company's financial condition and results of operations cannot be determined at this time. If computer systems used by the Company or its suppliers, the performance of products provided to the Company by suppliers, or the software applications used in products manufactured and sold by the Company, fail or experience significant difficulties related to Y2K, the Company's results of operations and financial condition could be materially adversely affected.

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 1997 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 Form 10-Q.

PART II OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

3.1(a) - Provisions of the Amended and Restated Certificate of Incorporation of Cohu, Inc.

27.1 - Financial Data Schedule

(b) Reports on Form 8-K: The Company did not file any reports on Form 8-K during the quarter ended September 30, 1998.

SIGNATURES

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

COHU, INC.

(Registrant)

Date: October 22, 1998

/s/ Charles A. Schwan

Charles A. Schwan
President & Chief Executive Officer

Date: October 22, 1998

/s/ John H. Allen

John H. Allen
Vice President, Finance & Chief
Financial Officer

PROVISIONS OF AMENDED AND RESTATED CERTIFICATE
OF INCORPORATION OF COHU, INC.

FIRST: The name of the corporation is COHU, INC.

SECOND: Its registered office in the State of Delaware is located at No. 100 West Tenth Street, in the City of Wilmington, County of New Castle. The name and address of its registered agent is The Corporation Trust Company, No. 100 West Tenth Street, Wilmington, Delaware, 19801.

THIRD: The nature of the business, or objects or purposes to be transacted, promoted or carried on are:

To manufacture, sell and deal in electronic instruments and devices.

To manufacture, purchase or otherwise acquire, invest in, own, mortgage, pledge, sell, assign and transfer or otherwise dispose of, trade, deal in and deal with goods, wares and merchandise and personal property of every class and description.

To acquire, and pay for in cash, stock or bonds of this corporation or otherwise, the good will, rights, assets and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation.

To acquire, hold, use, sell, assign, lease, grant licenses in respect of mortgage or otherwise dispose of letters patent of the United States or any foreign country, patent rights, licenses and privileges, inventions, improvements and processes, copyrights, trademarks and trade names, relating to or useful in connection with any business of this corporation.

To acquire by purchase, subscription or otherwise, and to receive, hold, own guarantee, sell, assign, exchange, transfer, mortgage, pledge or otherwise dispose of or deal in and with any of the shares of the capital stock, or any voting trust certificates in respect of the shares of capital stock, scrip, warrants, rights, bonds, debentures, notes, trust receipts, and other securities, obligations, choses in action and evidences of indebtedness or interest issued or created by any corporations, joint stock companies, syndicates, associations, firms, trusts or persons, public or private, or by the government of the United States of America, or by any foreign government, or by any state, territory, province, municipality or other political subdivision or by any governmental agency, and as owner thereof to possess and exercise all the rights, powers and privileges of ownership, including the right to execute consents and vote thereon, and to do any and all acts and things necessary or advisable for the preservation, protection, improvement and enhancement in value thereof.

To enter into, make and perform contracts of every kind and description with any person, firm, association, corporation, municipality, county, state, body politic or government or colony or dependency thereof.

To borrow or raise moneys for any of the purposes of the corporation and, from time to time without limit as to amount, to draw, make, accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment of any thereof and of the interest thereon by mortgage upon or pledge, conveyance or assignment in trust of the whole or any part of the property of the corporation, whether at the time owned or thereafter acquired, and to sell, pledge or otherwise dispose of such bonds or other obligations of the corporation for its corporate purposes.

To loan to any person, firm or corporation any of its surplus funds, either with or without security.

To purchase, hold, sell and transfer the shares of its own capital stock; provided it shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital except as otherwise permitted by law, and provided further that shares of its own capital stock belonging to it shall not be voted upon directly or indirectly.

To have one or more offices, to carry on all or any of its operations and business and without restriction or limit as to amount, to purchase or otherwise acquire, hold, own, mortgage, sell, convey or otherwise dispose of, real and personal property of every class and description in any of the states, districts, territories or colonies of the United States, and in any and all foreign countries, subject to the laws of such state, district, territory, colony or country.

In general, to carry on any other business in connection with the foregoing, and to have and exercise all the powers conferred by the laws of Delaware upon corporations formed under the General Corporation Law of the State of Delaware, and to do any or all of the things hereinbefore set forth to the same extent as natural persons might or could do.

The objects and purposes specified in the foregoing clauses shall, except where otherwise expressed, be in no way limited or restricted by reference to, or inference from the terms of any other clause in this certificate of incorporation, but the objects and purposes specified in each of the foregoing clauses of this article shall be regarded as independent objects and purposes.

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is 41,000,000 shares, of which 1,000,000 shares shall constitute Preferred Stock having a par value of \$1.00 per share and 40,000,000 shares shall constitute Common Stock having a par value of \$1.00 per share.

1. Any of the shares of Preferred Stock may be issued from time to time in one or more series. The Board of Directors, by resolution or resolutions, is authorized to create or provide for any such series, and to fix the designations, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof, including, without limitation, the authority to fix or alter the dividend rights, dividend rates, conversion rights, exchange rights, voting rights, rights and terms of redemption (including sinking and purchase fund provisions), the redemption price or prices, the dissolution preferences, and the rights in respect to any distribution of assets, of any wholly unissued series of Preferred Stock and the number of shares constituting any such series, and the designation thereof, or any of them and to increase or decrease the number of shares of any series so created subsequent to the issue of any such series but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

2. Subject to all of the rights of the Preferred Stock, dividends may be paid upon the Common Stock as and when declared by the Board of Directors out of funds legally available for payment of dividends.

3. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, and after the holders of the Preferred Stock shall have been paid in full amounts to which they respectively shall be entitled, or an amount sufficient to pay the aggregate amount to which such holders shall be entitled shall have been deposited in trust with a bank or trust company having its principal office in the Borough of Manhattan, City, County and State of New York, or the City of Los Angeles, State of California, having a capital, undivided profits and surplus aggregating at least \$5,000,000 for the benefit of the holders of the Preferred Stock, the remaining net assets of the Corporation shall be distributed pro rata to the holders of the Common Stock.

4. The entire voting power and all voting rights, except as otherwise required by law, or fixed by resolution or resolutions of the Board of Directors with respect to one or more series of Preferred Stock, shall be vested exclusively in the Common Stock. The amount of either the authorized Preferred Stock or Common Stock, or the amount of both such classes of stock, may be increased or decreased by the affirmative vote of the holders of a majority of the stock of the Corporation entitled to vote.

FIFTH: The shareholders of this corporation shall have no pre-emptive rights.

SIXTH: The minimum amount of capital with which the corporation will commence business is ONE THOUSAND DOLLARS (\$1,000).

SEVENTH: The names and places of residence of the incorporators are as follows:

NAMES -----	RESIDENCES -----
H. K. Webb	Wilmington, Delaware
H. C. Broadt	Wilmington, Delaware
A. D. Atwell	Wilmington, Delaware

EIGHTH: The corporation is to have perpetual existence.

NINTH: The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatever.

TENTH: In furtherance and not in limitation of the powers conferred by statute, the board of directors is expressly authorized:

To make, alter or repeal the by-laws of the corporation.

To authorize and cause to be executed mortgages and liens upon the real and personal property of the corporation.

To set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

By resolution passed by a majority of the whole board, to designate one or more committees, each committee to consist of two or more of the directors of the corporation, which, to the extent provided in the resolution or in the by-laws of the corporation, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in the by-laws of the corporation or as may be determined from time to time by resolution adopted by the board of directors.

When and as authorized by the affirmative vote of the holders of a majority of the stock issued and outstanding having voting power given at a stockholders' meeting duly called for that purpose, or when authorized by the written consent of the holders of a majority of the voting stock issued and outstanding, to sell, lease or exchange all of the property and

assets of the corporation, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may be in whole or in part shares of stock in, and/or other securities of any other corporation or corporations, as its board of directors shall deem expedient and for the best interests of the corporation.

ELEVENTH: Meetings of stockholders may be held outside the State of Delaware, if the by-laws so provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the board of directors or in the by-laws of the corporation. Elections of directors need not be by ballot unless the by-laws of the corporation shall so provide.

TWELFTH: The corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

THIRTEENTH: Every shareholder entitled to vote at any election of directors of this company may cumulate his votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which his shares are entitled, or distribute his votes on the same principle among as many candidates as he thinks fit. The candidates receiving the highest number of votes up to the number of directors to be elected are elected.

FOURTEENTH: The Board of Directors of this Corporation is divided into three classes, Class 1, Class 2 and Class 3. The number of Directors in each class shall be the whole number contained in the quotient arrived at by dividing the authorized number of Directors by three, and if a fraction is also contained in such quotient, then if such fraction is one-third, the extra Director shall be a member of Class 3, and if the fraction is two-thirds, one of the Directors shall be a member of Class 3 and the other shall be a member of Class 2. Each Director shall serve for a term ending on the date of the third annual meeting following that at which such Director is elected, and Directors of only one class shall be elected at any annual meeting, except as hereinafter provided. The Directors elected at the meeting of stockholders at which the Amendment to the Certificate of Incorporation of this Corporation to include this Article is approved shall determine which of them shall belong to Class 1, which to Class 2, and which to Class 3 by resolution of the Board, which resolution when adopted may not be amended or rescinded. Those so determined as belonging to Class 1 shall serve for a term ending on the annual meeting date next following, those so determined as belonging to Class 2 shall serve for a term ending on the second annual meeting date next following, and those so determined as belonging to Class 3 shall serve a full term as hereinabove provided. The foregoing notwithstanding, each Director shall serve until a successor shall have been duly elected and qualified unless he shall resign, become disqualified, die or shall be removed as provided in this Certificate of Incorporation.

No Director of the Corporation shall be removed from office as a Director by vote or other action of stockholders or otherwise, unless the Director to be removed

has been convicted of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal, or unless the Director to be removed has been adjudged to be liable for negligence or misconduct in the performance of his duty to the Corporation by a court of competent jurisdiction and such adjudication is no longer subject to direct appeal.

FIFTEENTH: In the event that it is proposed that this Corporation enter into a "business combination" (as hereinafter defined) with any other corporation and such corporation or its affiliates singly or in the aggregate own or control directly or indirectly five (5%) percent or more of the outstanding shares of the common stock of this Corporation (such corporation and its affiliates being referred to herein as a "related party"), the affirmative vote of the holders of not less than 80% of the total voting power of all outstanding shares of stock of this Corporation shall be required for the approval of such proposal; provided, however, that the foregoing shall not apply to any business combination which was approved by resolution of the Board of Directors of this Corporation prior to the acquisition of the ownership or control of ten (10%) percent of the outstanding shares of this Corporation by such related party, nor shall it apply to any business combination between this Corporation and another Corporation, fifty (50%) percent or more of the voting stock of which is owned by this Corporation, and none of which is owned or controlled by a related party, provided that each stockholder of this Corporation receives the same type of consideration in such transaction in proportion to his stockholding. For the purposes hereof, an "affiliate" is any person (including a corporation, partnership, trust, estate or individual) who directly or indirectly, through one or more intermediaries, controls or is controlled by or is under common control with the person specified, and "control" means the possession directly or indirectly of the power to direct or cause the direction of management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.

For the purposes hereof, the term "business combination" shall mean (a) any merger or consolidation of or with this Corporation, (b) any sale, lease, exchange, transfer or other disposition, including without limitation a mortgage or other security device, of all or any substantial part of the assets of this Corporation or any subsidiary of this Corporation, (c) the acquisition by this Corporation or subsidiary of this Corporation of any securities of a related person, (d) the issuance of any shares of this Corporation or any subsidiary to a related person, or (e) any agreement, contract or other arrangement providing for any of the transactions described in this definition of business combination.

SIXTEENTH: Action shall be taken by stockholders only at an annual or special meeting of stockholders, and stockholders may not act by written consent.

SEVENTEENTH: The by-laws of this Corporation may be adopted, altered, amended or repealed at any time by affirmative vote of a majority of the authorized number of Directors of this Corporation, and may also be altered, amended or repealed at any annual meeting, or at any special meeting of stockholders duly called for the purpose, by the affirmative vote of the holders of not less than 80% of the issued and outstanding shares of the stock of this Corporation, in any manner not prohibited by this Certificate of Incorporation or by the Delaware Corporation Law as then in effect.

EIGHTEENTH: The provisions set forth in Articles Fourteenth, Fifteenth, Sixteenth, and Seventeenth and in this Article Eighteenth may not be repealed or amended in any respect unless such repeal or amendment is approved by the affirmative vote of the holders of not less than 80% of the total voting power of all outstanding shares of stock of this Corporation.

NINETEENTH: A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, as the same exists or hereafter may be amended, or (iv) for any transaction from which the director derived an improper personal benefit. No amendment to or repeal of this Article NINETEEN shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM 1997 AND 1998 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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	DEC-31-1997		
	JAN-01-1998		
	SEP-30-1998		
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		8,065	
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	13,995		
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