

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, 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
(Address of principal executive offices)

92123
(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

Preferred Stock Purchase Rights, \$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 ☐

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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 \$217,000,000 as of February 15, 1999. Shares of
common stock held by each officer and director and by each person or group who
owns 5% or more of the outstanding common stock have been excluded in that such
persons or groups may be deemed to be affiliates. This determination of
affiliate status is not necessarily a conclusive determination for other
purposes.

As of February 15, 1999, the Registrant had 9,795,648 shares of its \$1.00
par value common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part I and Part II incorporate certain information by reference from the
Annual Report to Stockholders for the year ended December 31, 1998. Part III
incorporates certain information by reference from the Proxy Statement for the
1999 Annual Meeting of Stockholders.

PART I

ITEM 1. BUSINESS

This Annual Report on Form 10-K 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 and Market Risks" 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 has two reportable segments as defined by FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information. The semiconductor equipment segment designs, manufactures and sells semiconductor test handling equipment to semiconductor manufacturers throughout the world. The television camera segment designs, manufactures and sells closed circuit television cameras and systems to original equipment manufacturers, contractors and government agencies. The Company's other operating segments include Fisher Research Laboratory, Inc. ("FRL"), a metal detection business, and Broadcast Microwave Services, Inc. ("BMS"), a microwave radio equipment company.

Sales by segment, expressed as a percentage of total consolidated net sales, for the last three years were as follows:

	1998	1997	1996
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Semiconductor equipment	80%	81%	79%
Television cameras	12	13	14
Other	8	6	7
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	100%	100%	100%
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Additional financial information on industry segments for each of the last three years is included on pages 2 (Selected Financial Data) and 11 and 12 (Note 7) in the 1998 Annual Report to Stockholders and is incorporated herein by reference.

SEMICONDUCTOR EQUIPMENT

Cohu's Semiconductor Equipment Group ("SEG") is the largest U. S. based and one of the world's largest suppliers of semiconductor test handling equipment. SEG's operating units, Delta Design (San Diego, California) and Daymarc (Littleton, Massachusetts) design, manufacture, market and service a broad range of test handlers, capable of handling virtually any type of integrated circuit ("IC") package. Test handlers are electromechanical systems, which are used to automate the IC final test process. Testing determines the quality and performance of the IC prior to shipment to customers. While testers are designed for specific IC types, such as microprocessor, logic, DRAM or mixed signal, handlers are engineered to process one or more of the various plastic or ceramic packages which protect the micro-circuitry and provide electrical connection to the printed circuit board or substrate.

Most test handlers use either gravity-feed or pick-and-place technologies to process ICs. Delta Design's systems utilize pick-and-place handling, while Daymarc's equipment mainly employs gravity-feed techniques. The IC package type normally determines the appropriate handling approach. Because gravity-feed handling is simple, reliable and fast, it is the preferred technique for packages with leads on only two sides, including the dual-in-line ("DIP") and Small Outline ("SOIC"). ICs with leads on all four sides, such as the Quad Flat Pack and certain ICs with leads on two sides, such as the thin small outline package ("TSOP"), are predominately run in pick-and-place systems. In gravity-feed handlers, ICs are unloaded from plastic tubes or metal magazines at the top of the machine and flow through the system, from top to bottom, propelled along

precision trackwork by the force of gravity. At the output of the handler, the ICs are sorted and reloaded into tubes or magazines for additional process steps or for shipment. In pick-and-place systems, ICs are automatically removed from waffle-like trays, placed in precision transport boats, or carriers, and cycled through the system. ICs are sorted and reloaded into designated trays, based on test results.

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 of -60 degrees C to +160 degrees C. Over the years, the Company has developed considerable expertise in the design of reliable, precision mechanisms which operate in these extreme temperatures and in controlling test temperature during test. As semiconductor manufacturers continue to reduce the size of ICs while providing higher performance and speed, test handler manufacturers have faced the additional and substantial challenge of dissipating large amounts of heat which are generated during the test process. This heat is capable of damaging or destroying the IC and can also result in downgrading, when devices fail to operate at full specification during test. Device yields are extremely important and directly affect the profitability of the semiconductor manufacturer. 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 in high production environments and many are in service twenty-four hours per day, seven days a week. Customers continuously strive to increase the utilization of their production test equipment and expect high reliability from test handlers. The availability of trained technical support personnel is an important competitive factor in the marketplace. The Company deploys service engineers worldwide, often within customer production facilities, who work with customer personnel on continuous equipment improvement programs.

DELTA DESIGN

Equipment flexibility is important to semiconductor manufacturers and Delta Design's pick-and-place test handlers may be configured for virtually any semiconductor package type, through the use of tooling known as package dedication kits. Delta has a large installed base of pick-and-place test handlers, with nearly 2,000 systems installed at over 130 locations worldwide.

The Delta Nitro 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 logic pick-and-place test handler. Through Delta's continuous product improvement process, the handler 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 handler's small footprint of only eleven square feet, combined with high speed and dependable operation, make the 1688 a highly cost effective solution for test applications where environmental capability is not required.

Delta's Castle handlers incorporate an innovative vertical tray handling system which provides high input/output automation in an extremely small footprint. The system is available in both memory and logic configurations. Castle Mx32 provides parallel testing of up to thirty-two devices. Castle Lx offers the same benchmark small footprint as the Mx32 and a fast index time to maximize test system utilization.

Delta's newest handler, Summit, is designed to meet the requirements of manufacturers of advanced microprocessors and other high speed, high power devices. Summit utilizes chilled fluid to control test temperatures and dissipate the considerable heat generated by these devices during test.

DAYMARC

Daymarc, acquired by Cohu in 1994, was among the first companies to introduce fully automatic, gravity-feed test handlers. Daymarc manufactures four lines of test handlers: the 717 Series, 3000 Series and 4000 Series of gravity handlers and the newly introduced Enterprise test-in-tray handler line.

The 717 Series test handlers accommodate 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 provide index times as low as 350 and 500 milliseconds, respectively. The systems can be adapted to handle many different package types.

The 3000 Series Handlers are designed for a wide range of gravity feed devices, including DIPs and SOICs. These handlers may be configured to test 1-32 devices in parallel and 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 SOIC handling with multi-site capability. The 4100 is a fully automated, high-speed handler designed for high-volume, ambient test applications. The system operates at speeds up to 18,000 UPH in dual or quad site configurations.

Daymarc's newest handler, Enterprise, employs a handling technique known as test-in-tray. Unlike pick-and-place handlers, which remove ICs from trays and process them in boats, or carriers, Enterprise transports the devices through the handler in the storage tray, greatly reducing the amount of device handling. Test-in-tray is particularly suited for parallel test applications. Daymarc shipped a significant number of Enterprise handlers during 1998. Test-in-tray is a relatively new concept that requires the IC manufacturer to make certain changes to conventional IC handling and test processes. While the benefits may be significant, it is difficult to predict how widespread the use of this technology will become.

TELEVISION CAMERAS

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 for these products is broadly distributed between machine vision, scientific imaging and security/surveillance markets. The current product line represents a comprehensive 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.

OTHER BUSINESSES

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 products include pipe and cable locators, water leak detectors, property marker locators and instruments for locating reinforcing bars in concrete.

BMS designs, manufactures and sells 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.

CUSTOMERS

SEMICONDUCTOR 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 1998 Motorola, Micron Technology and Intel accounted for 22%, 17% and 12%, respectively, of the Company's net sales. In 1997 Motorola, Intel and Micron Technology accounted for 17%, 14% and 11%, respectively, of the Company's net sales. In 1996 Micron Technology and Motorola represented 14% and 12%, respectively, of the Company's net sales. The loss of or a significant reduction in orders by these or other significant customers, including reductions due to market, economic or competitive conditions in the semiconductor industry, would adversely affect the Company's financial condition and results of operations.

TELEVISION CAMERAS AND OTHER BUSINESSES

The Company's customer base in the television cameras industry segment is diverse and includes government agencies, original equipment manufacturers, contractors and value-added resellers throughout the world. No single customer of this segment accounted for 10% or more of the Company's consolidated net sales in 1998, 1997 or 1996.

The Company's customer base in the other operating businesses (FRL and BMS) is also diverse and includes government agencies, original equipment manufacturers, contractors, distributors and consumers throughout the world. No single customer of either FRL or BMS accounted for 10% or more of the Company's consolidated net sales in 1998, 1997 or 1996.

Contracts, including subcontract work, with U. S. Government agencies accounted for net sales of \$4.7 million, \$5.3 million and \$4.8 million in 1998, 1997 and 1996, 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 and offer more extensive product offerings 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 cameras segment and other businesses 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 order backlog of the Company as of December 31, 1998 was \$28.1 million as compared to \$55.5 million at December 31, 1997. Of these amounts, \$20.8 million (\$44.5 million in 1997) was in semiconductor test handling equipment, \$5.3 million (\$7.6 million in 1997) was in television cameras and \$2.0 million (\$3.4 million in 1997) from FRL and BMS. 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 of the Company 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 \$20.4 million in 1998, \$17.5 million in 1997 and \$14.0 million in 1996. Total dollar expenditures increased primarily due to increased spending for R & D on semiconductor test handling equip-

ment. 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, 1998 the Company had approximately 900 employees. None of these employees are covered by collective bargaining agreements. 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, particularly those with technical skills, is intense. The Company considers its relations with its employees to be good.

BUSINESS AND MARKET RISKS

INDUSTRY CYCLES

The Company's operating results are substantially dependent on its semiconductor 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 those experienced in 1996 and 1998. Reductions in capital equipment investment by semiconductor manufacturers will adversely affect the Company's financial position and results of operations.

RAPID TECHNOLOGICAL CHANGE AND NEW 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 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 similar to or in excess of those recorded in 1998 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 transition from product development to the manufacture of new semiconductor equipment is a difficult process and delays in product introductions are common. During 1998 the Company experienced delays in the introduction of its new Enterprise and Castle test handlers and difficulties in manufacturing and volume production of these products. 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 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 realize acceptable profit margins on such products.

HIGHLY COMPETITIVE INDUSTRY

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 offer 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.

CUSTOMER CONCENTRATION

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 1998, three customers of the semiconductor equipment segment accounted for 51% 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 financial condition and 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.

FOREIGN SALES

In 1998, 44% of the Company's total net sales were exported to foreign countries, including 51% 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.

WORK FORCE REDUCTIONS

During 1996 and 1998 the Company reduced the size of its work force and implemented other cost reduction measures. 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.

MARKET RISKS

At December 31, 1998 the Company's investment portfolio includes fixed-income securities of \$79.6 million. These securities are subject to interest rate risk and will decline in value if interest rates increase. Due to the short duration of the Company's investment portfolio, an immediate 10 percent increase in interest rates would have no material impact on the Company's financial condition or results of operations.

The Company generally conducts business, including sales to foreign customers, in U. S. dollars and as a result has limited foreign currency exchange rate risk. Monetary assets and liabilities of the Company's Singapore and Taiwan operations are not significant. The effect of an immediate 10 percent change in foreign exchange rates would not have a material impact on the Company's financial condition or results of operations.

YEAR 2000 RISKS

The Company has a Year 2000 ("Y2K") Task Force focusing on four key readiness areas: 1) Internal Infrastructure Readiness, addressing internal hardware and software, including both information technology and non-information technology systems; 2) Product Readiness, addressing product functionality; 3) Supplier Readiness, addressing the preparedness of key suppliers to the Company and 4) Customer Readiness, addressing customer support. For each readiness area, the Company is performing a risk assessment, conducting testing and remediation, developing contingency plans to mitigate unknown risks 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, has completed 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 June 1999. The Y2K compliance evaluation of hardware, including hubs, routers, telecommunication equipment, workstations and other items is expected to be completed by April 1999. In addition to applications and information technology hardware, the Company is in the process of assessing, testing and remediating its non-information technology systems including 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 available for all customers 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 from the majority of its key suppliers most of whom indicate that they believe products provided to the Company are either Y2K compliant or will be made Y2K complaint on a timely basis. Based on the Company's assessment of each supplier's progress to adequately address the Y2K issue, the Company is developing a supplier action list and contingency plans. Supplier readiness issues that potentially affect the Company's products are expected to be addressed by April 1999.

Customer Readiness: This program focuses on customer support, including the coordination of retrofit activity and developing contingency plans where appropriate. The Company is currently working with its customers to develop and implement potential retrofit or upgrade programs and offering assistance in making its products Y2K compliant.

The Company estimates that total Y2K costs will be approximately \$500,000, the great majority of which will be incurred by January 2000. Y2K costs incurred through December 31, 1998 have been charged to operations and have not been material. 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 all the above 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, 1998 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. (1)	10,000	Leased
San Diego, CA. (2)	52,000	Owned
San Diego, CA. (3)	15,000	Leased
Los Banos, CA. (4)	23,000	Owned

(1) Semiconductor equipment

(2) Television cameras

(3) BMS

(4) FRL

In addition to the locations listed above the Company leases other properties for sales and service 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 February 15, 1999. Executive Officers serve at the discretion of the Board of Directors, until their successors are appointed.

NAME	AGE	POSITION
- - - -	---	-----
EXECUTIVE OFFICERS:		
Charles A. Schwan	59	President & Chief Executive Officer, Director
John H. Allen	47	Vice President, Finance & Chief Financial Officer, Secretary
SIGNIFICANT EMPLOYEES:		
James M. Brown	61	President, Cohu Electronics Division
Graham Bunney	43	President, BMS
Roger A. Cimino	51	President, FRL
James A. Donahue	50	President, Cohu Semiconductor Equipment Group

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. 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. Cimino has been employed by FRL since December 1998 and has been President of FRL since February 1999. Prior to joining FRL Mr. Cimino held various positions with Cummins Engine Company, Inc. from 1989 until 1998 including Vice President and General Manager of the Cadec Systems subsidiary from 1993 to 1998.

Mr. Donahue has been employed by Delta Design since 1978 and was President of Delta Design from May 1983 until May 1998. In May 1998 Mr. Donahue was promoted to President of the Cohu Semiconductor Equipment Group.

PART II

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

Information regarding the market prices of the Company's stock, markets for that stock, the number of stockholders and dividend information is contained on the inside back cover of the 1998 Annual Report to Stockholders under " Cohu Stock Information". Such information is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

"Selected Financial Data" on page 2 of the 1998 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 14 through 16 of the 1998 Annual Report to Stockholders is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information regarding the Company's market risk is set forth under "Market Risks" on page 16 of the 1998 Annual Report to Stockholders and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company, including the report thereon of Ernst & Young LLP, on pages 7 - 13 and the unaudited Quarterly Financial Data contained on the inside back cover of the 1998 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 1999 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 11. Information in the Proxy Statement under "Section 16(a) Beneficial Ownership Reporting Compliance" is also incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding the Company's compensation of its executive officers and directors and certain other information is set forth in the Proxy Statement under "Board of Directors and Committees", "Compensation of Executive Officers and Other Information" and "Compensation Committee Interlocks and Insider Participation" 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

The financial statement schedule listed in the accompanying index to financial statements and financial statement schedules is filed as part of this Annual Report on Form 10-K.

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

No reports on Form 8-K were filed during the quarter ended December 31, 1998.

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

(Item 14(a))

(a) 1. Financial Statements -----	Pages incorporated from Annual Report to Stockholders -----
Consolidated balance sheets at December 31, 1998 and 1997	7
Consolidated statements of income for each of the three years in the period ended December 31, 1998	8
Consolidated statements of cash flows for each of the three years in the period ended December 31, 1998	9
Consolidated statements of stockholders' equity for each of the three years in the period ended December 31, 1998	9
Notes to consolidated financial statements	10 - 13
 (a) 2. Financial Statement Schedule -----	 10-K Page -----
Schedule II -- Valuation and Qualifying Accounts	18

All other schedules are omitted because they are not required, are not applicable, 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, 1998 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, 7A and 8, the 1998 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., incorporated herein by reference from the Company's 1996 Form 10-K, Exhibit 3.1(a)
3.1(b)	Provisions of the Amended and Restated Certificate of Incorporation of Cohu, Inc., incorporated herein by reference from the Company's Form 10-Q for the quarter ended September 30, 1998, Exhibit 3.1(a)
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	Description of Cohu, Inc. Executive Incentive Bonus Plan, incorporated herein by reference from the Company's 1990 Form 10-K, Exhibit 10.3*
10.2	Termination Agreement between Cohu, Inc. and Charles A. Schwan, incorporated herein by reference from the Company's 1990 Form 10-K, Exhibit 10.5*
10.3	The Cohu, Inc. 1992 Stock Option Plan, incorporated herein by reference from the Company's Proxy Statement for its 1992 Annual Meeting of Stockholders*
10.4	The Cohu, Inc. 1994 Stock Option Plan, incorporated herein by reference from the Company's Proxy Statement for its 1995 Annual Meeting of Stockholders*
10.5	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
10.6	The Cohu, Inc. 1996 Stock Option Plan, incorporated herein by reference from the Company's Proxy Statement for its 1996 Annual Meeting of Stockholders*
10.7	Employment Agreement between Cohu, Inc. and James W. Barnes, incorporated herein by reference from the Company's 1995 Form 10-K, Exhibit 10.9*
10.8	Credit Agreement between Bank of America National Trust and Savings Association and the Company, dated June 15, 1998, incorporated herein by reference from the Company's Form 10-Q for the quarter ended June 30, 1998, Exhibit 10.1
10.9	Termination Agreement between Cohu, Inc. and John H. Allen, incorporated herein by reference from the Company's 1996 Form 10-K, Exhibit 10.11*
10.10	The Cohu, Inc 1996 Outside Directors Stock Option Plan, incorporated herein by reference from the Company's 1996 Form 10-K, Exhibit 10.12*

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

EXHIBIT	DESCRIPTION
- - - - -	- - - - -
10.11	The Cohu, Inc. 1997 Employee Stock Purchase Plan, incorporated herein by reference from the Company's 1996 Form 10-K, Exhibit 10.13*
10.12	The Cohu, Inc. Key Executive Long Term Incentive Plan incorporated herein by reference from the Company's 1997 Form 10-K, Exhibit 10.13*
10.13	The Cohu, Inc. 1998 Stock Option Plan incorporated herein by reference from the Company's 1997 Form 10-K, Exhibit 10.14*
10.14	Termination Agreement between Cohu, Inc. and James A. Donahue incorporated herein by reference from the Company's Form 10-Q for the quarter ended June 30, 1998, Exhibit 10.2*
13	1998 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 4, 1999

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 4, 1999
/s/ Charles A. Schwan ----- Charles A. Schwan	President & Chief Executive Officer, Director (Principal Executive Officer)	March 4, 1999
/s/ John H. Allen ----- John H. Allen	Vice President, Finance & Chief Financial Officer, Secretary (Principal Financial & Accounting Officer)	March 4, 1999
/s/ James W. Barnes ----- James W. Barnes	Director	March 4, 1999
/s/ Harry L. Casari ----- Harry L. Casari	Director	March 4, 1999
/s/ Frank W. Davis ----- Frank W. Davis	Director	March 4, 1999
/s/ Harold Harrigian ----- Harold Harrigian	Director	March 4, 1999
/s/ Gene E. Leary ----- Gene E. Leary	Director	March 4, 1999

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

Description -----	Balance at Beginning of Year -----	Additions Charged to Expense -----	Deductions (Write-offs) -----	Balance at End of Year -----
Allowance for doubtful accounts:				
Year ended December 31, 1996	\$1,565	\$498	\$236	\$1,827
Year ended December 31, 1997	\$1,827	\$148	\$187	\$1,788
Year ended December 31, 1998	\$1,788	\$147	\$597	\$1,338
Reserve for excess and obsolete inventory:				
Year ended December 31, 1996	\$14,928	\$ 1,988	\$1,226	\$15,690
Year ended December 31, 1997	\$15,690	\$ 1,471	\$2,067	\$15,094
Year ended December 31, 1998	\$15,094	\$10,583	\$7,255	\$18,422

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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 personnel worldwide, also manufactures closed circuit television, metal detection and microwave radio equipment.

FINANCIAL HIGHLIGHTS

(in thousands, except per share data)

OPERATIONS:	1998	1997
	----	----
ORDERS	\$144,122	\$209,334
NET SALES	171,511	187,756
NET INCOME	11,646	29,187
EARNINGS PER SHARE:		
BASIC	1.20	3.09
DILUTED	1.17	2.93
BALANCE SHEET:		
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS	86,703	53,550
WORKING CAPITAL	120,143	106,201
TOTAL ASSETS	162,231	162,892
STOCKHOLDERS' EQUITY	137,463	126,211

YEAR	ORDERS (in millions)	SALES (in millions)	NET INCOME (in millions)	STOCKHOLDERS' EQUITY (in millions)
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
1997	209.3	187.8	29.2	126.2
1998	144.1	171.5	11.6	137.5

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 "anticipate", "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 and Market Risks" beginning on page 14 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:

=====

Sales for 1998 were \$171.5 million compared to \$187.8 million for 1997. Net income for 1998 was \$11.6 million or \$1.17 per share, compared to \$29.2 million or \$2.93 per share in 1997.

Orders for 1998 were \$144.1 million compared to \$209.3 million in 1997. Backlog at the end of 1998 was \$28.1 million compared to year end 1997 backlog of \$55.5 million.

Sales of test handling equipment decreased 11% from 1997 levels and accounted for 80% of 1998 total sales. In 1998 sales of television cameras and related equipment accounted for 12% of sales and metal detection and microwave equipment contributed 8% of sales.

International sales for 1998 were \$74.9 million compared to 1997 international sales of \$96.9 million and accounted for 44% of consolidated sales compared to 52% 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.

Our 1998 results were adversely impacted by the slowdown experienced by the entire semiconductor equipment industry. During the year we aligned our resources and production capacity with the reduced demand while increasing new product development spending. At the same time our cash resources increased from \$54 million in 1997 to \$87 million in 1998.

Although the semiconductor equipment industry is seeing some signs of improvement, we remain cautious. We believe our strong balance sheet and global market presence place the Company in a position to benefit from the positive long-term outlook of the semiconductor and semiconductor equipment industries.

Dividends of \$3.1 million or \$.32 per share were paid in 1998, the 20th consecutive year of cash dividend payments and the 12th 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,

Charles A. Schwan
President and Chief Executive Officer
January 28, 1999

SELECTED FINANCIAL DATA

(in thousands, except per share data)

FOR THE YEARS ENDED DECEMBER 31	1998	1997	1996	1995	1994
- - - - -	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
Net sales:					
Semiconductor equipment	\$ 136,323	\$ 152,668	\$ 126,236	\$ 146,093	\$ 72,502
Television cameras	21,001	23,553	22,298	21,570	19,926
	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
Net sales for reportable segments	157,324	176,221	148,534	167,663	92,428
All other	14,187	11,535	10,819	11,096	10,298
	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
Total consolidated net sales	\$ 171,511	\$ 187,756	\$ 159,353	\$ 178,759	\$ 102,726
	=====	=====	=====	=====	=====
Operating profit (loss):					
Semiconductor equipment	\$ 14,213	\$ 41,167	\$ 35,298	\$ 37,704	\$ 15,408
Television cameras	1,570	3,056	2,866	2,280	2,006
	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
Operating profit for reportable segments	15,783	44,223	38,164	39,984	17,414
All other	(1,094)	159	145	(14)	(33)
	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
Total consolidated operating profit	14,689	44,382	38,309	39,970	17,381
Other unallocated amounts:					
Corporate expenses	(955)	(1,337)	(1,273)	(1,051)	(547)
Interest income	3,469	2,999	1,960	704	60
Interest expense	--	--	--	(12)	(206)
Goodwill amortization and write-down	(1,157)	(157)	(157)	(689)	(70)
	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
Income before income taxes	16,046	45,887	38,839	38,922	16,618
Provision for income taxes	4,400	16,700	14,600	15,300	6,500
	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
Net income	\$ 11,646	\$ 29,187	\$ 24,239	\$ 23,622	\$ 10,118
	=====	=====	=====	=====	=====
Earnings per share:					
Basic	\$ 1.20	\$ 3.09	\$ 2.62	\$ 2.63	\$ 1.19
Diluted	1.17	2.93	2.50	2.46	1.15
Cash dividends per share, paid quarterly	\$ 0.32	\$ 0.24	\$ 0.20	\$ 0.16	\$ 0.12
Depreciation and amortization deducted in arriving at operating profit:					
Semiconductor equipment	\$ 1,953	\$ 1,321	\$ 833	\$ 620	\$ 428
Television cameras	424	420	410	387	388
All other	265	250	253	188	295
	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
	2,642	1,991	1,496	1,195	1,111
Goodwill amortization	157	157	157	689	70
	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
	\$ 2,799	\$ 2,148	\$ 1,653	\$ 1,884	\$ 1,181
	=====	=====	=====	=====	=====
Capital expenditures:					
Semiconductor equipment	\$ 1,356	\$ 3,513	\$ 3,586	\$ 4,932	\$ 649
Television cameras	162	341	294	192	194
All other	208	275	1,256	163	177
	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
	\$ 1,726	\$ 4,129	\$ 5,136	\$ 5,287	\$ 1,020
	=====	=====	=====	=====	=====
AT DECEMBER 31					
Total assets by segment:					
Semiconductor equipment	\$ 50,754	\$ 79,978	\$ 39,981	\$ 48,708	\$ 45,316
Television cameras	8,728	10,696	10,573	10,886	10,948
	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
Total assets for reportable segments	59,482	90,674	50,554	59,594	56,264
All other operating segments	7,537	8,307	7,449	8,240	7,782
Corporate	95,212	63,911	59,923	36,100	3,922
	- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
Total consolidated assets	\$ 162,231	\$ 162,892	\$ 117,926	\$ 103,934	\$ 67,968
	=====	=====	=====	=====	=====
Working capital	\$ 120,143	\$ 106,201	\$ 78,003	\$ 57,228	\$ 37,680
Long-term debt	--	--	--	--	1,400
Stockholders' equity	137,463	126,211	96,272	72,029	47,371

SEMICONDUCTOR TEST HANDLING EQUIPMENT

Cohu's Semiconductor Equipment Group ("SEG") is the largest U. S. based and one of the world's largest suppliers of semiconductor test handling equipment. SEG's operating units, Delta Design (San Diego, California) and Daymarc (Littleton, Massachusetts) design, manufacture, market and service a broad range of test handlers, capable of handling virtually any type of integrated circuit ("IC") package. Test handlers are electromechanical systems that are used to automate the IC final test process. Testing determines the quality and performance of the IC prior to shipment to customers. While testers are designed for specific IC types, such as microprocessor, logic, DRAM or mixed signal, handlers are engineered to process one or more of the various plastic or ceramic packages which protect the micro-circuitry and provide electrical connection to the printed circuit board or substrate.

Most test handlers use either gravity-feed or pick-and-place technologies to process ICs. Delta Design's systems utilize pick-and-place handling, while Daymarc's equipment mainly employs gravity-feed techniques. The IC package type normally determines the appropriate handling approach. Because gravity-feed handling is simple, reliable and fast, it is the preferred technique for packages with leads on only two sides, including the dual-in-line ("DIP") and small outline ("SOIC"). ICs with leads on all four sides, such as the Quad Flat Pack and certain ICs with leads on two sides, such as the thin small outline package ("TSOP"), are predominately run in pick-and-place systems. In gravity-feed handlers, ICs are unloaded from plastic tubes or metal magazines at the top of the machine and flow through the system, from top to bottom, propelled along precision trackwork by the force of gravity. At the output of the handler, the ICs are sorted and reloaded into tubes or magazines for additional process steps or for shipment. In pick-and-place systems, ICs are automatically removed from waffle-like trays, placed in precision transport boats, or carriers, and cycled through the system. ICs are sorted and reloaded into designated trays, based on test results.

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 of -60 degrees C to +160 degrees C. Over the years, the Company has developed considerable expertise in the design of reliable, precision mechanisms which operate in these extreme temperatures and in controlling test temperature during test. As semiconductor manufacturers continue to reduce the size of ICs while providing higher performance and speed, test handler manufacturers have faced the additional and substantial challenge of dissipating large amounts of heat which are generated during the test process. This heat is capable of damaging or destroying the IC and can also result in downgrading, when devices fail to operate at full specification during test. Device yields are extremely important and directly affect the profitability of the semiconductor manufacturer. 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 that are used in high production environments and many are in service twenty-four hours per day, seven days a week. Customers continuously strive to increase the utilization of their production test equipment and expect high reliability from test handlers. The availability of trained technical support personnel is an important competitive factor in the marketplace. The Company deploys service engineers worldwide, often within customer production facilities, who work with customer personnel on continuous equipment improvement programs.

The past year was a difficult one for the semiconductor equipment industry. The Company entered 1998 with a strong backlog, but order rates declined during Q1, and by mid-year had fallen to less than fifty percent of earlier year levels. In response to these conditions and like most companies in the industry, we reduced our work force and production rates significantly throughout the year. However, we continued to fund product development at record levels, as a continuous stream of new products is vital to our long-term success. Despite the challenging conditions in the industry, we maintained our focus on customer support and for the second consecutive year, Delta Design was awarded the prestigious Supplier Excellence Award from Texas Instruments.

DELTA DESIGN

Equipment flexibility is important to semiconductor manufacturers and Delta Design's pick-and-place test handlers may be configured for virtually any semiconductor package type, through the use of tooling known as package dedication kits. Delta has a large installed base of pick-and-place test handlers, with nearly 2,000 systems installed at over 130 locations worldwide.

The Delta Nitro 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 logic pick-and-place test handler. Through Delta's continuous product improvement process, the handler 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 handler's small footprint of only eleven square feet, combined with high speed and dependable operation, make the 1688 a highly cost effective solution for test applications where environmental capability is not required.

[PHOTO]
CASTLE LOGIC HANDLER

Delta's Castle handlers incorporate an innovative vertical tray handling system which provides high input/output automation in an extremely small footprint. The system is available in both memory and logic configurations. Castle Mx32 provides parallel testing of up to thirty-two devices. Castle Lx offers the same benchmark small footprint as the Mx32 and a fast index time to maximize test system utilization.

Delta's newest handler, Summit, is designed to meet the requirements of manufacturers of advanced microprocessors and other high speed, high power devices. Summit utilizes chilled fluid to control test temperatures and dissipate the considerable heat generated by these devices during test.

DAYMARC

Daymarc, acquired by Cohu in 1994, was among the first companies to introduce fully automatic, gravity-feed test handlers. Daymarc manufactures four lines of test handlers: the 717 Series, 3000 Series and 4000 Series of gravity handlers and the newly introduced Enterprise test-in-tray handler line.

The 717 Series test handlers accommodate 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 provide index times as low as 350 and 500 milliseconds, respectively. The systems can be adapted to handle many different package types.

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The 3000 Series handlers are designed for a wide range of gravity-feed devices, including DIPs and SOICs. These handlers may be configured to test 1-32 devices in parallel and 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 SOIC handling with multi-site capability. The 4100 is a fully automated, high-speed handler designed for high-volume, ambient test applications. The system operates at speeds up to 18,000 UPH in dual or quad site configurations.

Daymarc's newest handler, Enterprise, employs a handling technique known as test-in-tray. Unlike pick-and-place handlers, which remove ICs from trays and process them in boats, or carriers, Enterprise transports the devices through the handler in the storage tray, greatly reducing the amount of device handling. Test-in-tray is particularly suited for parallel test applications. Daymarc shipped a significant number of Enterprise handlers during 1998. Test-in-tray is a relatively new concept that requires the IC manufacturer to make certain changes to conventional IC handling and test processes. While the benefits may be significant, it is difficult to predict how widespread the use of this technology will become.

ELECTRONICS DIVISION (TELEVISION CAMERAS)

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

(PHOTO)
TRAFFIC MANAGEMENT CAMERA &
CONTROL SYSTEM

The current product line represents a comprehensive array of indoor and outdoor CCTV cameras as well as camera control equipment. 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.

Cohu has been called upon to create CCTV solutions for such diverse applications as aircraft de-icing equipment in Canada, surveillance of the Alaska Pipeline, security at sports stadiums, vision for airborne weapons and process monitoring at waste treatment plants.

The Division manufactures video cameras for a number of Original Equipment Manufacturer ("OEM") customers that integrate Cohu components into their products. Other distribution channels for television products include direct sales to end users, contractors and value-added resellers.

In 1998 Cohu won a number of contracts for traffic surveillance cameras, including systems in North Carolina, Georgia, and Minnesota. In addition to sales of standard cameras to state and federal highway departments, the Division is an OEM provider to a key manufacturer of wide area detection products for traffic control.

The OEM sales team helps customers meet automated assembly challenges. In 1998 this resulted in a contract to build a seven-sensor camera for a manufacturer of advanced circuit board assembly equipment. This advanced vision technology increases throughput by presenting components for multiple picking and placing. Opportunities for Cohu cameras also exist in scientific industries using video technology. The product line includes cameras that are integrated into systems for fluorescing gel analysis, medical research and x-ray.

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The Division continues to pursue opportunities in the international market through distributors, contractors and OEM accounts. Process monitoring, security and advanced imaging applications provide the majority of international sales.

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

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 1999 key markets for Cohu CCTV products are expected to include applications for transportation, machine vision, microscopy and surveillance.

FRL

Fisher Research Laboratory ("FRL") designs, manufactures and sells metal detectors and other underground detection devices for industrial and consumer markets.

Industrial products include pipe and cable locators, water leak detectors, property marker locators and instruments for locating reinforcing bars in concrete. FRL's 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, relic hunters, sport divers and weekend treasure hunters. As with the industrial line, FRL's consumer products have a well earned reputation for quality, performance and durability. As a result, several of the models designed for hobby use are also used by law enforcement agencies, archaeologists and professional treasure salvors.

FRL's products are sold worldwide with major markets in the U. S., Western Europe, Canada and the Pacific Rim. Emerging markets include such countries as Russia, China and Mexico. Export sales were approximately 26% of sales in 1998.

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 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,	
	1998	1997
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 74,446	\$ 39,736
Short-term investments	12,257	13,814
Accounts receivable less allowance for doubtful accounts of \$1,338 in 1998 and \$1,787 in 1997	18,800	31,934
Inventories:		
Raw materials and purchased parts	8,388	21,224
Work in process	5,124	15,657
Finished goods	12,365	8,018
	-----	-----
	25,877	44,899
Deferred income taxes	10,477	9,669
Prepaid expenses	1,541	1,478
	-----	-----
Total current assets	143,398	141,530
Property, plant and equipment, at cost:		
Land and land improvements	2,501	2,114
Buildings and building improvements	12,102	12,293
Machinery and equipment	17,801	17,524
	-----	-----
	32,404	31,931
Less accumulated depreciation and amortization	14,791	12,982
	-----	-----
Net property, plant and equipment	17,613	18,949
Goodwill, net of accumulated amortization of \$1,972 in 1998 and \$815 in 1997	1,155	2,312
Other assets	65	101
	-----	-----
	\$162,231	\$162,892
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,016	\$ 16,166
Commissions payable	883	1,663
Income taxes payable	3,070	3,421
Accrued compensation and benefits	5,369	7,574
Accrued warranty	4,060	3,157
Customer advances	3,978	--
Other accrued liabilities	2,879	3,348
	-----	-----
Total current liabilities	23,255	35,329
Accrued retiree medical benefits	993	1,004
Deferred income taxes	520	348
Stockholders' equity:		
Preferred stock, \$1 par value; 1,000 shares authorized, none issued	--	--
Common stock, \$1 par value; 40,000 shares authorized, 9,779 shares issued and outstanding in 1998 and 9,549 shares in 1997	9,779	9,549
Paid in excess of par	11,169	8,677
Retained earnings	116,515	107,985
	-----	-----
Total stockholders' equity	137,463	126,211
	-----	-----
	\$162,231	\$162,892
	=====	=====

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Years ended December 31,		
	1998	1997	1996
	-----	-----	-----
Net sales	\$171,511	\$187,756	\$159,353
Cost and expenses:			
Cost of sales	116,427	105,991	88,578
Research and development	20,400	17,513	13,968
Selling, general and administrative	21,107	21,364	19,928
Goodwill write-down	1,000	--	--
	-----	-----	-----
	158,934	144,868	122,474
	-----	-----	-----
Income from operations	12,577	42,888	36,879
Interest income	3,469	2,999	1,960
	-----	-----	-----
Income before income taxes	16,046	45,887	38,839
Provision for income taxes	4,400	16,700	14,600
	-----	-----	-----
Net income	\$ 11,646	\$ 29,187	\$ 24,239
	=====	=====	=====
Earnings per share:			
Basic	\$ 1.20	\$ 3.09	\$ 2.62
	=====	=====	=====
Diluted	\$ 1.17	\$ 2.93	\$ 2.50
	=====	=====	=====
Weighted average shares used in computing earnings per share:			
Basic	9,726	9,437	9,268
	=====	=====	=====
Diluted	9,970	9,950	9,677
	=====	=====	=====

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

=====

(in thousands)

Cash flows from operating activities:

	Years ended December 31,		
	1998	1997	1996
	-----	-----	-----
Net income	\$ 11,646	\$ 29,187	\$ 24,239
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization	2,799	2,148	1,653
Loss on asset write-downs and disposals	420	--	--
Goodwill write-down	1,000	--	--
Purchase consideration paid with stock	--	551	589
Deferred income taxes	(636)	204	(310)
Increase (decrease) in accrued retiree medical benefits	(11)	88	57
Changes in assets and liabilities:			
Accounts receivable	13,134	(12,764)	8,402
Inventories	19,022	(29,317)	5,662
Prepaid expenses	(63)	(312)	(193)
Accounts payable	(13,150)	11,702	(2,989)
Commissions payable	(780)	98	(170)
Income taxes payable	49	2,669	(5,200)
Customer advances	3,978	--	--
Accrued compensation, warranty and other liabilities	(1,771)	1,078	(1,597)
	-----	-----	-----
Net cash provided from operating activities	35,637	5,332	30,143
Cash flows from investing activities:			
Purchases of short-term investments	(21,280)	(23,779)	(28,326)
Maturities of short-term investments	22,837	38,291	--
Purchases of property, plant and equipment	(1,726)	(4,129)	(5,136)
Other assets	36	(40)	--
	-----	-----	-----
Net cash provided from (used for) investing activities	(133)	10,343	(33,462)
Cash flows from financing activities:			
Issuance of stock, net	2,322	1,671	961
Dividends paid	(3,116)	(2,270)	(1,856)
	-----	-----	-----
Net cash used for financing activities	(794)	(599)	(895)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	34,710	15,076	(4,214)
Cash and cash equivalents at beginning of year	39,736	24,660	28,874
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 74,446	\$ 39,736	\$ 24,660
	=====	=====	=====
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Income taxes, net of refunds	\$ 5,191	\$ 13,827	\$ 20,110

upper half

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

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

	Years ended December 31, 1998, 1997 and 1996			
	Common Stock \$1 par value	Paid in excess of par	Retained earnings	Total
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
Cash dividends -- \$.24 per share	--	--	(2,270)	(2,270)
Daymarc acquisition	18	533	--	551
Repurchase and retirement of stock	(3)	(67)	--	(70)
Exercise of stock options	185	1,350	--	1,535
Shares issued under employee stock purchase plan	8	198	--	206
Tax benefit from stock options	--	800	--	800
Net income	--	--	29,187	29,187
Balance at December 31, 1997	9,549	8,677	107,985	126,211
Cash dividends -- \$.32 per share	--	--	(3,116)	(3,116)
Repurchase and retirement of stock	(1)	(27)	--	(28)
Exercise of stock options	195	1,452	--	1,647
Shares issued under employee stock purchase plan	36	667	--	703
Tax benefit from stock options	--	400	--	400
Net income	--	--	11,646	11,646
Balance at December 31, 1998	\$9,779	\$11,169	\$116,515	\$137,463

See accompanying notes.

bottom half

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRESENTATION - The consolidated financial statements include the accounts of Cohu, Inc. and its wholly-owned subsidiaries (the "Company"). All significant intercompany accounts and balances have been eliminated in consolidation.

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, 1998 and 1997. 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.

LONG-LIVED ASSETS - 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. Through December 31, 1998, goodwill was amortized on the straight-line method over twenty years. Commencing January 1999 goodwill will be amortized over four years. The carrying amount and useful life of long-lived assets are reviewed if facts and circumstances suggest there has been impairment. If this review indicates that long-lived assets will not be recoverable, as determined based on estimated undiscounted cash flows, the carrying amount and useful life are reduced.

EARNINGS PER SHARE - Earnings per share are computed in accordance with 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. In 1998 options to purchase 238,000 shares of common stock at an average exercise price of \$33.62 were excluded from the diluted computation. The following table reconciles the denominators used in computing basic and diluted earnings per share:

(in thousands)	1998	1997	1996
	-----	-----	-----
Weighted average common shares outstanding	9,726	9,437	9,268
Effect of dilutive stock options	244	513	409
	-----	-----	-----
	9,970	9,950	9,677
	=====	=====	=====

INVENTORIES - Inventories are stated at the lower of cost, determined on a current average or first-in, first-out basis, or market.

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 applies APB Opinion No. 25 and related interpretations in accounting for its stock option and employee stock purchase plans.

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, usage and recoverability of inventory and long-lived assets and incurrence of warranty costs. Actual results could differ from those estimates.

2. FOURTH QUARTER ADJUSTMENTS

In the fourth quarter of 1998 the Company recorded net pretax charges for inventory and related reserves of approximately \$3,500,000 and a goodwill write-down of \$1,000,000 primarily as a result of changes in customer demand for certain semiconductor handler products. In addition, the credit for income taxes in the fourth quarter of 1998 was favorably impacted by approximately \$1,000,000 as a result of the settlement of tax examinations for earlier years.

3. INVESTMENTS

Investments at December 31, 1998 and 1997, were as follows:

(in thousands)	1998	1997
	-----	-----
U.S. Treasuries and obligations of U.S. Government Agencies	\$ --	\$ 1,000
Corporate debt securities	79,554	48,852
	-----	-----
Total investments	79,554	49,852
Less amounts classified as cash equivalents	(67,297)	(36,038)
	-----	-----
Short-term investments	\$12,257	\$13,814
	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At December 31, 1998 and 1997 the estimated fair value of the Company's investments approximated amortized cost and, except for \$3,138,000 of investments at December 31, 1998 that mature in 2000, all investments mature in 1999.

4. LINE OF CREDIT

The Company maintains a \$10,000,000 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 1999. No borrowings were outstanding at December 31, 1998 or 1997.

5. INCOME TAXES

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

(in thousands)	1998	1997	1996
	-----	-----	-----
Current:			
Federal	\$4,329	\$14,131	\$12,283
State	707	2,365	2,627
	-----	-----	-----
Total current	5,036	16,496	14,910
Deferred:			
Federal	(478)	189	(256)
State	(158)	15	(54)
	-----	-----	-----
Total deferred	(636)	204	(310)
	-----	-----	-----
	\$4,400	\$16,700	\$14,600
	=====	=====	=====

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)	December 31,	
Deferred tax assets:	1998	1997
	-----	-----
Reserves and accrued warranty costs	\$ 9,531	\$ 8,236
Accrued state income taxes	203	662
Accrued employee benefits	1,164	1,157
Other	573	608
	-----	-----
Total deferred tax assets	11,471	10,663
	-----	-----
Deferred tax liabilities:		
Tax over book depreciation	1,514	1,342
	-----	-----
Net deferred tax assets	\$ 9,957	\$ 9,321
	=====	=====

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

(in thousands)	1998	1997	1996
	-----	-----	-----
Tax at U.S. statutory rate	\$ 5,616	\$16,060	\$13,594
State income taxes, net of federal tax benefit	357	1,547	1,672
FSC benefit	(641)	(1,477)	(1,100)
Nondeductible goodwill and performance-based consideration expense	405	248	261

Settlement of prior year tax examinations	(1,049)	--	--
Other -- net	(288)	322	173
	-----	-----	-----
	\$ 4,400	\$16,700	\$14,600
	=====	=====	=====

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 earnings per share of the Company.

7. SEGMENT AND RELATED INFORMATION

The Company has two reportable segments as defined by FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information. Statement No. 131 became effective in 1998 and segment data for prior periods has been restated to conform to the provisions of this statement. The Company's reportable segments are business units that offer different products and are managed separately because each business requires different technology and marketing strategies. The semiconductor equipment segment designs, manufactures and sells semiconductor test handling equipment to semiconductor manufacturers throughout the world and accounted for 80% of net sales in 1998. The television camera segment designs, manufactures and sells closed circuit television cameras and systems to original equipment manufacturers, contractors and government agencies and accounted for 12% of net sales in 1998. The Company's other operating segments include a metal detection business and a microwave radio equipment company. Neither of these other segments met any of the quantitative thresholds for determining reportable segments. Information regarding industry segments for 1998, 1997, and 1996 contained in the Selected Financial Data on page 2 is an integral part of these financial statements.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. The Company allocates resources and evaluates the performance of segments based on pretax profit or loss from operations, excluding unusual gains or losses. Intersegment sales were not significant for any period.

One customer of the semiconductor equipment segment accounted for 22%, 17%, and 12% of net sales in 1998, 1997, and 1996, respectively. Another customer of the same segment accounted for 17%, 11%, and 14%, of net

sales in 1998, 1997, and 1996, respectively. A third customer of this segment accounted for 12% of net sales in 1998 and 14% in 1997.

Assets located in foreign countries were not significant. Net sales to customers, attributed to countries based on the location of the customer, were as follows:

(in thousands)	1998	1997	1996
	-----	-----	-----
United States	\$ 96,645	\$ 90,820	\$ 87,673
Malaysia	19,222	23,210	10,224
Philippines	19,141	14,736	7,867
Singapore	8,101	11,810	17,659
Taiwan	6,301	15,157	9,432
Other foreign countries	22,101	32,023	26,498
	-----	-----	-----
Total	\$171,511	\$187,756	\$159,353
	=====	=====	=====

8. EMPLOYEE BENEFIT PLANS

RETIREMENT PLANS - The Company has voluntary defined contribution retirement 401(k) plans whereby it will match contributions up to 4% of employee compensation. Company contributions to the plans were \$1,179,000 in 1998, \$991,000 in 1997, and \$841,000 in 1996. Certain of the Company's foreign employees participate in a defined benefit pension plan. The related expense and benefit obligation of this plan were not significant.

RETIREE MEDICAL BENEFITS - The Company provides post-retirement health benefits under a noncontributory plan to certain executives and directors. The net periodic benefit cost was \$78,000, \$95,000, and \$78,000 in 1998, 1997, and 1996, respectively. The Company funds benefits as costs are incurred. Benefits paid and other changes in the benefit obligation for each of the three years in the period ended December 31, 1998 were not significant. The weighted average discount rate used in determining the accumulated post-retirement benefit obligation was 7.0% in 1998 and 7.5% in 1997 and 1996. Annual rates of increase of the cost of health benefits were assumed to be approximately 8.50% in 1999. These rates were then assumed to decrease 0.25% per year to 6% in 2009 and remain level thereafter. A 1% increase (decrease) in health care cost trend rates would increase (decrease) the 1998 net periodic benefit cost by approximately \$12,000 (\$10,000) and the accumulated post-retirement benefit obligation as of December 31, 1998 by approximately \$137,000 (\$113,000).

EMPLOYEE STOCK PURCHASE PLAN - In May 1997 the Company adopted the Cohu, Inc. 1997 Employee Stock Purchase Plan providing for the issuance of a maximum of 300,000 shares of the Company's Common Stock. Under the Plan, eligible employees may purchase shares of common stock through payroll deductions. The price paid for the common stock is equal to 85% of the fair market value of the Company's Common Stock on specified dates. In 1998 and 1997, 35,479 and 7,890 shares, respectively, were issued under the Plan.

The estimated weighted average fair values of purchase rights granted in 1998 and 1997 were \$9.01 and \$10.51, respectively. The fair value of the purchase rights was estimated using the Black-Scholes option-pricing model with the following assumptions for 1998 and 1997; risk-free interest rates ranging from 4.4% to 5.3%; dividend yield of 1%; expected life of 6 months and volatility of 54% to 56%.

STOCK OPTIONS - Under the Company's stock option plans, options may be granted to key employees and outside directors to purchase a fixed number of 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 approved by the Company's stockholders in May 1997. All options become exercisable one-fourth annually beginning one year after the grant date and expire 10 years from the grant date. Options to purchase a total of 239,750 and 221,600 shares were granted to employees in exchange for an equal number of canceled options pursuant to exchange plans approved by the Board of Directors in November 1996 and December 1998, respectively. 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 periods ended November 2000 and December 2002. At December 31, 1998 447,949 and 60,000 shares were available for future grants under the employee and outside director plans, respectively.

The estimated weighted average fair value of options granted during 1998,

1997 and 1996 was \$13.19, \$15.60, and \$9.24, 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 1998, 1997, and 1996: risk-free interest rates ranging from 4.2% to 6.8%; dividend yield of 1%; expected life of 5 years and volatility of 48% to 56%.

Had compensation cost for the Company's stock option and purchase plan grants from 1995 through 1998 been determined based on the fair value at the date of grant accounting consistent with FASB Statement No. 123, Accounting for Stock-Based Compensation, the Company's pro forma net income and earnings per share would have been as follows:

(in thousands, except per share)	1998 -----	1997 -----	1996 -----
Pro forma net income	\$10,598	\$28,035	\$24,178
Pro forma earnings per share:			
Basic	1.09	2.97	2.61
Diluted	1.08	2.85	2.51

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. Because the Company's employee stock option and purchase plans have characteristics significantly different from those of traded options, in management's opinion, this model does not necessarily provide a reliable single measure of the fair value of its employee stock option and purchase plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Stock option activity under all option plans was as follows:

(in thousands, except per share data)

	1998		1997		1996	
	SHARES	WT. AVG. EX. PRICE	SHARES	WT. AVG. EX. PRICE	SHARES	WT. AVG. EX. PRICE
Outstanding, beginning of year	857	\$17.13	839	\$11.28	878	\$ 9.11
Granted	403	26.71	234	31.28	471	20.17
Exercised	(195)	8.44	(185)	8.29	(221)	4.48
Canceled	(266)	32.62	(31)	18.71	(289)	24.41
Outstanding, end of year	799	\$18.93	857	\$17.13	839	\$11.28
Options exercisable at year end	305	\$12.44	341	\$ 9.53	378	\$ 7.74

Information about stock options outstanding at December 31, 1998 is as follows:

(options in thousands)

Range of Exercisable Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/98	Approximate Remaining Life	Wt. Avg. Ex. Price	Number Exercisable at 12/31/98	Wt. Avg. Ex. Price
\$ 8.06 to \$ 9.69	175	5.6 years	\$ 8.08	175	\$ 8.08
15.38 to 27.00	565	8.9 years	20.05	130	18.24
35.75 to 43.50	59	9.2 years	40.32	--	--
	799		\$18.93	305	\$12.44
	===		=====	===	=====

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, 1998 and 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. 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, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

San Diego, California
January 27, 1999

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

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RESULTS OF OPERATIONS

1998 COMPARED TO 1997

In 1998 the Company was impacted by the worldwide slowdown in demand for semiconductor equipment and as a result net sales decreased 9% to \$171.5 million in 1998 compared to net sales of \$187.8 million in 1997. Sales of semiconductor equipment in 1998 decreased 11% compared to 1997 and accounted for 80% of consolidated net sales in 1998 versus 81% in 1997. In 1998 sales of television cameras accounted for 12% of sales while the combined sales of metal detection and microwave radio equipment contributed 8% of sales. Export sales accounted for 44% of net sales in 1998 compared to 52% in 1997.

Gross margin as a percentage of net sales declined to 32.1% in 1998 versus 43.5% 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 provisions for warranty and excess inventories, changes in product mix, including new handler products that had significantly lower margins, reduced business volume, sales price reductions and certain cost increases. Research and development expense as a percentage of net sales increased to 11.9% in 1998 compared to 9.3% in 1997 as a result of an increase in new product development efforts in the semiconductor equipment business. Selling, general and administrative ("S, G & A") expense as a percentage of net sales increased to 12.3% in 1998 from 11.4% in 1997 primarily as a result of the decrease in business volume offset by a reduction in performance-based compensation expense. Interest income was \$3.5 million in 1998 and \$3 million in 1997. The provision for income taxes expressed as a percentage of pre-tax income was 27.4% in 1998 vs. 36.4% in 1997. The decrease in the effective tax rate was largely attributable to a decline in state income taxes and the favorable impact of the settlement of tax examinations for earlier years.

In the fourth quarter of 1998 the Company recorded net pretax charges for inventory and related reserves of approximately \$3.5 million and a goodwill write-down of \$1 million primarily as a result of changes in customer demand for certain semiconductor handler products. The goodwill write-down was based on an analysis of future estimated undiscounted cash flows. In addition, the credit for income taxes in the fourth quarter of 1998 was favorably impacted by approximately \$1 million as a result of the settlement of tax examinations for earlier years.

1997 COMPARED TO 1996

Net sales increased 18% to \$187.8 million in 1997 compared to net sales of \$159.4 million in 1996. Sales of semiconductor test handling equipment increased 21% and accounted for 81% of consolidated net sales in 1997 versus 79% in 1996. In 1997 sales of television cameras accounted for 13% of sales and metal detection and microwave radio equipment contributed 6% of sales. Export sales accounted for 52% of net sales in 1997 compared to 45% in 1996.

Gross margin as a percentage of net sales was 43.5% in 1997 versus 44.4% in 1996 as a result of lower margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins decreased in 1997 as a result of changes in product mix and certain cost increases. Research and development expense as a percentage of net sales was 9.3% in 1997 up from 8.8% in 1996 and reflected the Company's increased investment in new product development, particularly in the semiconductor equipment business. S, G & A expense as a percentage of net sales declined to 11.4% in 1997 from 12.5% in 1996 as the percentage increase in net sales exceeded the percentage increase in S, G & A. Interest income in 1997 increased 53% to \$3 million due to the significant increase in average cash equivalents and short-term investments during 1997. The provision for income taxes expressed as a percentage of pre-tax income was 36.4% in 1997 vs. 37.6% in 1996. The decrease in the effective tax rate was largely attributable to a decline in state income taxes.

LIQUIDITY AND CAPITAL RESOURCES

The Company's net cash flows generated from operating activities in 1998 totaled \$35.6 million. The major components of cash flows from operating activities were net income of \$11.6 million and decreases in accounts receivable and inventories of \$13.1 million and \$19.0 million, respectively, offset by a decrease in accounts payable of \$13.2 million. The decreases in accounts payable, accounts receivable and inventories were attributable to the decrease in sales volume between December 1997 and 1998. Net cash used for investing

activities was \$.1 million in 1998. Cash provided by investing activities included a decrease in short-term investments of \$1.6 million offset by purchases of property, plant and equipment totaling \$1.7 million. Net cash used for financing activities was \$.8 million. Cash used for financing activities included \$3.1 million for the payment of dividends offset by \$2.3 million received from the issuance of stock under the Company's stock option and purchase plans. The Company had \$10 million available under its bank line of credit and working capital of \$120.1 million at December 31, 1998. The Company anticipates that present working capital will be sufficient to meet the Company's 1999 operating requirements including estimated capital expenditures during 1999 of approximately \$4 million.

BUSINESS AND MARKET RISKS

INDUSTRY CYCLES

The Company's operating results are substantially dependent on its semiconductor 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 those experienced in 1996 and 1998. Reductions in capital equipment investment by semiconductor manufacturers will adversely affect the Company's financial position and results of operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

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RAPID TECHNOLOGICAL CHANGE AND NEW 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 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 similar to or in excess of those recorded in 1998 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 transition from product development to the manufacture of new semiconductor equipment is a difficult process and delays in product introductions are common. During 1998 the Company experienced delays in the introduction of its new Enterprise and Castle test handlers and difficulties in manufacturing and volume production of these products. 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 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 realize acceptable profit margins on such products.

HIGHLY COMPETITIVE INDUSTRY

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 offer 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.

CUSTOMER CONCENTRATION

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 1998, three customers of the semiconductor equipment segment accounted for 51% 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 financial condition and 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.

FOREIGN SALES

In 1998, 44% of the Company's total net sales were exported to foreign countries, including 51% 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.

WORK FORCE REDUCTIONS

During 1996 and 1998 the Company reduced the size of its work force and implemented other cost reduction measures. Cost reduction measures may have a negative impact on the Company's operations and operating results.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

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Furthermore, no assurance can be made that such cost reduction measures will be implemented successfully.

MARKET RISKS

At December 31, 1998 the Company's investment portfolio includes fixed-income securities of \$79.6 million. These securities are subject to interest rate risk and will decline in value if interest rates increase. Due to the short duration of the Company's investment portfolio, an immediate 10 percent increase in interest rates would have no material impact on the Company's financial condition or results of operations.

The Company generally conducts business, including sales to foreign customers, in U. S. dollars and as a result has limited foreign currency exchange rate risk. Monetary assets and liabilities of the Company's Singapore and Taiwan operations are not significant. The effect of an immediate 10 percent change in foreign exchange rates would not have a material impact on the Company's financial condition or results of operations.

YEAR 2000 RISKS

The Company has a Year 2000 ("Y2K") Task Force focusing on four key readiness areas: 1) Internal Infrastructure Readiness, addressing internal hardware and software, including both information technology and non-information technology systems; 2) Product Readiness, addressing product functionality; 3) Supplier Readiness, addressing the preparedness of key suppliers to the Company and 4) Customer Readiness, addressing customer support. For each readiness area, the Company is performing a risk assessment, conducting testing and remediation, developing contingency plans to mitigate unknown risks 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, has completed 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 June 1999. The Y2K compliance evaluation of hardware, including hubs, routers, telecommunication equipment, workstations and other items is expected to be completed by April 1999. In addition to applications and information technology hardware, the Company is in the process of assessing, testing and remediating its non-information technology systems including 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 available for all customers 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 from the majority of its key suppliers most of whom indicate that they believe products provided to the Company are either Y2K compliant or will be made Y2K compliant on a timely basis. Based on the Company's assessment of each supplier's progress to adequately address the Y2K issue, the Company is developing a supplier action list and contingency plans. Supplier readiness issues that potentially affect the Company's products are expected to be addressed by April 1999.

Customer Readiness: This program focuses on customer support, including the coordination of retrofit activity and developing contingency plans where appropriate. The Company is currently working with its customers to develop and implement potential retrofit or upgrade programs and offering assistance in making its products Y2K compliant.

The Company estimates that total Y2K costs will be approximately \$500,000,

the great majority of which will be incurred by January 2000. Y2K costs incurred through December 31, 1998 have been charged to operations and have not been material. 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 all the above 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 1998 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

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
San Diego, California

HAROLD HARRIGIAN
Retired Partner & Director
of Corporate Finance
Crowell, Weedon & Co.

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
85 Challenger Road
Ridgefield Park, NJ 07660
(800) 356-2017
www.chasemellon.com

INDEPENDENT AUDITORS
Ernst & Young LLP
San Diego, California

LEGAL COUNSEL
Gray Cary Ware & Freidenrich LLP
San Diego, California

COHU STOCK INFORMATION

Cohu, Inc. stock is traded on the NASDAQ National Market under the symbol "COHU". Cohu declared cash dividends at the rate of \$0.08 per share per quarter in 1998 and \$0.06 per share per quarter in 1997.

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

	1998		1997	
	HIGH	LOW	High	Low
First Quarter	\$48.63	\$28.13	\$28.50	\$22.25
Second Quarter	39.25	23.50	36.38	21.50
Third Quarter	24.88	14.25	57.50	30.75

At December 31, 1998 the Company had approximately 10,000 total stockholders including 1,407 holders of record.

A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION FOR 1998 AND OTHER INFORMATION ABOUT COHU IS AVAILABLE WITHOUT CHARGE BY CONTACTING:

Investor Relations

Cohu, Inc.

5755 Kearny Villa Road

San Diego, CA 92123-1111

(619) 514-6203

or visit our website at www.cohu.com

QUARTERLY FINANCIAL DATA (UNAUDITED)
(in thousands, except per share data)

		FIRST -----	SECOND -----	THIRD -----	FOURTH -----	YEAR -----
Net sales:	1998	\$56,691	\$55,202	\$34,277	\$25,341	\$171,511
	1997	34,762	44,642	52,769	55,583	187,756
Gross profit:	1998	23,324	19,577	8,671	3,512 *	55,084
	1997	14,854	19,542	23,245	24,124	81,765
Net income (loss):	1998	8,216	5,313	466	(2,349)*	11,646
	1997	4,714	6,926	8,527	9,020	29,187
Earnings (loss) per share:						
Basic	1998	.85	.55	.05	(.24)*	1.20
	1997	.50	.74	.90	.95	3.09
Diluted	1998	.82	.53	.05	(.24)*	1.17
	1997	.48	.70	.85	.90	2.93

*Impacted by asset write-downs. See Note 2 to Consolidated Financial Statements

ANNUAL MEETING

The annual meeting of stockholders will be held at 2:00 p.m. on Tuesday, May 11, 1999 at the Company's corporate headquarters.

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

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 January 27, 1999, included in the 1998 Annual Report to Stockholders of Cohu, Inc.

Our audit also included the financial statement schedule of Cohu, Inc. listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements (Form S-8) and in the related Prospectuses pertaining to the Cohu, Inc. 1992, 1994, 1996 and 1998 Stock Option Plans, 1996 Outside Directors Stock Option Plan and 1997 Employee Stock Purchase Plan of our report dated January 27, 1999, with respect to the consolidated financial statements of Cohu, Inc., incorporated herein by reference and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of Cohu, Inc.

/s/ ERNST & YOUNG LLP

San Diego, California
March 4, 1999

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

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YEAR	DEC-31-1998	JAN-01-1998	DEC-31-1998
			74,446
		12,257	
		18,800	
		0	
		25,877	
	143,398		32,404
		14,791	
		162,231	
	23,255		0
	0		0
		0	9,779
		127,684	
162,231			171,511
	171,511		116,427
		116,427	
		0	
		0	
		0	
	16,046		
		4,400	
	11,646		0
		0	
		0	0
		11,646	
		1.20	
		1.17	