

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

OR

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

COMMISSION FILE NUMBER 1-4298

COHU, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

95-1934119

(State or other jurisdiction of
Incorporation or Organization)

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

5755 KEARNY VILLA ROAD, SAN DIEGO, CALIFORNIA

92123-1111

(Address of principal executive office)

(Zip Code)

Registrant's telephone number, including area code 858-541-5194

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

As of September 30, 2000, the Registrant had 20,252,709 shares of its \$1.00 par value common stock outstanding.

COHU, INC.
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FORM 10-Q
SEPTEMBER 30, 2000

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

ASSETS	SEPTEMBER 30, 2000 -----	DECEMBER 31, 1999 -----
Current assets:		
Cash and cash equivalents	\$ 92,318	\$ 55,954
Short-term investments	10,240	25,646
Accounts receivable, less allowance for doubtful accounts of \$1,915 in 2000 and \$1,981 in 1999	52,874	52,262
Inventories:		
Raw materials and purchased parts	22,431	21,257
Work in process	19,055	18,768
Finished goods	7,732	15,621
	-----	-----
	49,218	55,646
Deferred income taxes	11,231	11,231
Prepaid expenses	2,589	2,030
	-----	-----
Total current assets	218,470	202,769
Property, plant and equipment, at cost:		
Land and land improvements	2,501	2,501
Buildings and building improvements	12,704	12,507
Machinery and equipment	21,879	19,849
	-----	-----
	37,084	34,857
Less accumulated depreciation and amortization	20,052	17,841
	-----	-----
Net property, plant and equipment	17,032	17,016
Goodwill, net of accumulated amortization of \$2,477 in 2000 and \$2,260 in 1999	650	867
Other assets	86	81
	-----	-----
	\$236,238	\$220,733
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 13,004	\$ 13,042
Income taxes payable	5,248	6,778
Customer advances	274	18,530
Other accrued liabilities	20,924	18,369
	-----	-----
Total current liabilities	39,450	56,719
Accrued retiree medical benefits	965	984
Deferred income taxes	674	674
Stockholders' equity:		
Preferred stock	-	-
Common stock	20,253	19,938
Paid in excess of par	6,201	3,539
Retained earnings	168,695	138,879
	-----	-----
Total stockholders' equity	195,149	162,356
	-----	-----
	\$236,238	\$220,733
	=====	=====

See accompanying notes.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
Net sales	\$ 77,216	\$ 61,728	\$236,406	\$134,725
Cost and expenses:				
Cost of sales	46,593	37,076	142,716	81,990
Research and development	9,123	5,798	24,191	15,145
Selling, general and administrative	8,062	8,439	23,326	19,680
	63,778	51,313	190,233	116,815
Income from operations	13,438	10,415	46,173	17,910
Interest income	1,574	1,067	4,176	3,233
Income before income taxes	15,012	11,482	50,349	21,143
Provision for income taxes	5,200	4,000	17,500	7,400
Net income	\$ 9,812	\$ 7,482	\$ 32,849	\$ 13,743
Earnings per share:				
Basic	\$.48	\$.38	\$ 1.63	\$.70
Diluted	\$.47	\$.36	\$ 1.55	\$.67
Weighted average shares used in computing earnings per share:				
Basic	20,246	19,818	20,169	19,719
Diluted	20,910	20,699	21,154	20,387
Cash dividends declared per share	\$.05	\$.045	\$.15	\$.135

See accompanying notes.

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999
Cash flows from operating activities:		
Net income	\$ 32,849	\$ 13,743
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	2,474	2,416
Decrease in accrued retiree medical benefits	(19)	(3)
Changes in assets and liabilities:		
Accounts receivable	(612)	(25,064)
Inventories	6,428	(25,386)
Prepaid expenses	(559)	(168)
Accounts payable	(38)	11,473
Income taxes payable	(1,530)	3,246
Customer advances	(18,256)	-
Other accrued liabilities	2,555	10,222
Net cash provided by (used for) operating activities	23,292	(9,521)
Cash flows from investing activities:		
Purchases of short-term investments	(5,977)	(19,347)
Maturities of short-term investments	21,383	8,740
Purchases of property, plant, equipment and other assets	(2,278)	(1,644)
Net cash provided by (used for) investing activities	13,128	(12,251)
Cash flows from financing activities:		
Issuance of stock, net	2,977	1,331
Cash dividends	(3,033)	(2,666)
Net cash used for financing activities	(56)	(1,335)
Net increase (decrease) in cash and cash equivalents	36,364	(23,107)
Cash and cash equivalents at beginning of period	55,954	74,446
Cash and cash equivalents at end of period	\$ 92,318	\$ 51,339
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 19,030	\$ 4,154

See accompanying notes.

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2000

1 - BASIS OF PRESENTATION

The accompanying interim financial statements are unaudited but include all adjustments (consisting of normal recurring adjustments) which Cohu, Inc. (the "Company" or "Cohu") considers necessary for a fair statement of the results for the period. The operating results for the three and nine months ended September 30, 2000 are not necessarily indicative of the operating results for the entire year or any future period. These financial statements should be read in conjunction with the consolidated financial statements incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 1999 and management's discussion and analysis of financial condition and results of operations included elsewhere herein.

Net sales for the three months ended September 30, 2000 included \$17.3 million of sales of Summit test handlers that were shipped prior to June 30, 2000. Net sales for the nine months ended September 30, 2000 included \$25.6 million of sales of Summit test handlers that were shipped in 1999.

In December 1999, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), Revenue Recognition in Financial Statements. SAB 101 was amended by SAB 101B which delayed the implementation date of SAB 101 for calendar year end reporting companies, including Cohu, to the quarter ending December 31, 2000. The Company is currently evaluating SAB 101 and is uncertain as to what impact, if any, SAB 101 will have on its revenues and results of operations for the quarter and year ending December 31, 2000 and subsequent periods. The impact of SAB 101, if any, will be reported as a change in accounting principle in accordance with APB Opinion No. 20 and Financial Accounting Standards Board ("FASB") Statement No. 3. This may result in a significant cumulative effect change in accounting adjustment that would be reflected in the Company's results of operations for the quarter and year ending December 31, 2000.

In June 1998, the FASB issued Statement No. 133 Accounting for Derivative Instruments and Hedging Activities. Cohu will adopt Statement No. 133 as of the beginning of 2001 and such adoption is not expected to have a material effect on the Company's financial condition or results of operations.

2 - 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. For purposes of computing diluted earnings per share, weighted average common share equivalents do not include stock options with an exercise price that exceeds the average fair market value of the Company's common stock for the period. For the three and nine months ended September 30, 2000, options to purchase approximately 153,000 and 68,000 shares of common stock at average prices of \$28.65 and \$31.17, respectively, were excluded from the computation, and for the three and nine months ended September 30, 1999, options to purchase approximately 70,000 and 133,000 shares of common stock at average prices of \$21.75 and \$18.70, respectively, were excluded from the computation. The following table reconciles the denominators used in computing basic and diluted earnings per share:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	-----		-----	
	2000	1999	2000	1999
	-----		-----	
	(in thousands)		(in thousands)	
Weighted average common shares outstanding	20,246	19,818	20,169	19,719
Effect of dilutive stock options	664	881	985	668
	-----	-----	-----	-----
	20,910	20,699	21,154	20,387
	=====	=====	=====	=====

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2000

3 - SEGMENT AND RELATED INFORMATION

The following information is presented pursuant to FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information. Intersegment sales were not significant in any period.

	Three months ended September 30,		Nine months ended September 30,	
	2000	1999	2000	1999
	(in thousands)		(in thousands)	
Net sales:				
Semiconductor equipment	\$ 67,263	\$ 52,992	\$ 206,814	\$ 110,748
Television cameras	7,134	5,362	20,551	14,535
Net sales for reportable segments	74,397	58,354	227,365	125,283
All other	2,819	3,374	9,041	9,442
Total consolidated net sales	\$ 77,216	\$ 61,728	\$ 236,406	\$ 134,725
Operating profit (loss):				
Semiconductor equipment	\$ 13,763	\$ 10,628	\$ 46,364	\$ 19,315
Television cameras	638	299	1,743	810
Operating profit for reportable segments	14,401	10,927	48,107	20,125
All other	(169)	129	(66)	(671)
Total consolidated operating profit	14,232	11,056	48,041	19,454
Other unallocated amounts:				
Corporate expenses	(722)	(569)	(1,652)	(1,328)
Interest income	1,574	1,067	4,176	3,233
Goodwill amortization	(72)	(72)	(216)	(216)
Income before income taxes	\$ 15,012	\$ 11,482	\$ 50,349	\$ 21,143

	September 30, 2000	December 31, 1999
	(in thousands)	(in thousands)
Total assets by segment:		
Semiconductor equipment	\$106,761	\$115,671
Television cameras	11,049	11,758
Total assets for reportable segments	117,810	127,429
All other operating segments	6,178	5,419
Corporate	112,250	87,885
Total consolidated assets	\$236,238	\$220,733

4 - SUBSEQUENT EVENT

On October 27, 2000 the Company agreed to acquire certain real property in Poway, California consisting of a 338,000 square-foot building on approximately 20 acres of land. The purchase price of \$21.3 million was funded from the Company's existing cash reserves. The Company plans on selling its facilities in San Diego, California and moving its corporate headquarters and the San Diego operations of its Delta Design subsidiary to the Poway facility in 2001. Poway is a suburb of San Diego and the new facility is approximately 10 miles from the Company's current San Diego location.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 2000

This Form 10-Q contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the Safe Harbor provisions created by that statute. The words "anticipate", "expect", "believe", and similar expressions are intended to identify such statements. Such statements are subject to various 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.

RESULTS OF OPERATIONS

THIRD QUARTER 2000 COMPARED TO THIRD QUARTER 1999

Net sales increased 25% to \$77.2 million in 2000 compared to net sales of \$61.7 million in 1999. Sales of semiconductor test handling equipment in 2000 increased 27% from the 1999 period due to the inclusion of sales of the Company's new Summit handlers and accounted for 87% of consolidated net sales in 2000 versus 86% in 1999. Net sales for the three months ended September 30, 2000 included \$17.3 million of sales from the Company's new Summit test handlers that were shipped prior to June 30, 2000. Sales of television cameras and other equipment increased 33% while the combined sales of metal detection and microwave equipment decreased 16%. Export sales accounted for 69% of net sales in the third quarter of 2000 compared to 63% for the year ended December 31, 1999.

Gross margin as a percentage of net sales was 39.7% in 2000, compared to 39.9% in 1999. The slight decline in gross margin was primarily the result of increased provisions for excess inventory in the third quarter of 2000. Research and development expense as a percentage of net sales was 11.8% in 2000, compared to 9.4% in 1999, increasing in absolute dollars from \$5.8 million to \$9.1 million as a result of increased spending on new product development in the semiconductor equipment business. Selling, general and administrative expense as a percentage of net sales decreased to 10.4% in 2000 from 13.7% in 1999 primarily as a result of the increase in business volume and a reduction in bad debt expense. Interest income increased to \$1.6 million in 2000 from \$1.1 million in 1999 as a result of an increase in average cash and investment balances and interest rates. The provision for income taxes expressed as a percentage of pre-tax income was 34.6% in the third quarter of 2000 and 34.8% for the third quarter of 1999. As a result of the factors set forth above, net income increased from \$7.5 million in 1999 to \$9.8 million in 2000.

NINE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO NINE MONTHS ENDED
SEPTEMBER 30, 1999

Net sales increased 75% to \$236.4 million in 2000 compared to net sales of \$134.7 million in 1999. Net sales during the 1999 period were negatively impacted by the semiconductor industry downturn that began in mid 1998. Sales of semiconductor test handling equipment in 2000 increased 87% from the 1999 period and accounted for 87% of consolidated net sales in 2000 versus 82% in 1999. Net sales for the nine months ended September 30, 2000 included \$25.6 million of sales from the Company's new Summit test handlers that were shipped in 1999. Sales of television cameras and other equipment increased 41% while the combined sales of metal detection and microwave equipment decreased 4%. Export sales accounted for 63% of net sales for both the first nine months of 2000 and the year ended December 31, 1999.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 2000

NINE MONTHS ENDED SEPTEMBER 30, 2000 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1999 (CONT.)

Gross margin as a percentage of net sales was 39.6% in 2000 versus 39.1% in 1999. The improvement in gross margin was primarily the result of increased business volume and changes in product mix, offset by increased provisions for excess inventory. Research and development expense as a percentage of net sales was 10.2% in 2000, compared to 11.2% in 1999, increasing in absolute dollars from \$15.1 million to \$24.2 million primarily as a result of increased spending on new product development in the semiconductor equipment business. Selling, general and administrative expense as a percentage of net sales decreased to 9.9% in 2000 from 14.6% in 1999 primarily as a result of the increase in business volume. Interest income increased to \$4.2 million in 2000 from \$3.2 million 1999 as a result of increases in interest rates and average cash and investment balances. The provision for income taxes expressed as a percentage of pre-tax income was 34.8% in the first nine months of 2000 compared to 35.0% for the first nine months of 1999. As a result of the factors set forth above, net income for the nine month period increased to \$32.8 million in 2000 from \$13.7 million in 1999.

LIQUIDITY AND CAPITAL RESOURCES

The Company's net cash flows provided by operating activities in the first nine months of 2000 totaled \$23.3 million. The major components of cash flows provided by operating activities were net income of \$32.8 offset by the net change in current assets and liabilities totaling \$12.0 million. Net cash provided by investing activities included \$15.4 million from maturities of short-term investments, less purchases, offset by purchases of property, plant and equipment and other assets of \$2.3 million. Cash provided by financing activities included \$3.0 million received from the issuance of stock under stock option and employee stock purchase plans offset by \$3.0 million for the payment of dividends. The Company had \$10 million available under its bank line of credit and working capital of \$179.0 million at September 30, 2000. On October 27, 2000 the Company agreed to acquire certain real property in Poway, California consisting of a 338,000 square-foot building on approximately 20 acres of land. The purchase price of \$21.3 million was funded from the Company's existing cash reserves. The Company plans on selling its facilities in San Diego, California and moving its corporate headquarters and the San Diego operations of its Delta Design subsidiary to the Poway facility in 2001. It is anticipated that present working capital and available borrowings under the line of credit will be sufficient to meet the Company's operating requirements for the next twelve months.

BUSINESS AND MARKET RISKS

THE SEMICONDUCTOR INDUSTRY WE SERVE IS HIGHLY VOLATILE AND UNPREDICTABLE.

Cohu's operating results are substantially dependent on our 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 Cohu. We anticipate 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 our business, financial position and results of operations.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 2000

BUSINESS AND MARKET RISKS (CONT.)

NEW ACCOUNTING RULES MAY IMPACT THE TIMING OF REVENUE RECOGNITION AND OPERATING RESULTS.

In December 1999, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), Revenue Recognition in Financial Statements. SAB 101 was amended by SAB 101B which delayed the implementation date of SAB 101 for calendar year end reporting companies, including Cohu, to the quarter ending December 31, 2000. The Company is currently evaluating SAB 101 and is uncertain as to what impact, if any, SAB 101 will have on its revenues and results of operations for the quarter and year ending December 31, 2000 and subsequent periods. The impact of SAB 101, if any, will be reported as a change in accounting principle in accordance with APB Opinion No. 20 and FASB Statement No. 3. This may result in a significant cumulative effect change in accounting adjustment that would be reflected in the Company's results of operations for the quarter and year ending December 31, 2000.

SEMICONDUCTOR EQUIPMENT IS SUBJECT TO RAPID TECHNOLOGICAL CHANGE, PRODUCT INTRODUCTIONS AND TRANSITIONS MAY RESULT IN INVENTORY WRITE-OFFS AND OUR NEW PRODUCT DEVELOPMENT INVOLVES NUMEROUS RISKS AND UNCERTAINTIES.

Semiconductor equipment and processes are subject to rapid technological change. We believe that our future success will depend in part on our ability to enhance existing products and develop new products with improved performance capabilities. We expect 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, including the Company's Castle and Summit handlers, the concentration of our revenues in a limited number of large customers and the custom nature of our inventory parts increases the risk that our established products and related inventory may become obsolete resulting in greater excess and obsolete inventory exposure. This increased exposure resulted in increased inventory reserve requirements during the third quarter of 2000. Future inventory write-offs and increased reserve requirements could have a material adverse impact on our results of operations and financial condition.

The design, development, commercial introduction and manufacture 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, transitioning from product development to volume manufacturing 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. We believe 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 equipment 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. As a result we might not accurately assess the semiconductor industry's future test handler requirements and as a result fail to design and develop products that meet

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
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BUSINESS AND MARKET RISKS (CONT.)

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 our 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 and problems in manufacturing such equipment are common. We have in the past and may in the future experience difficulties in manufacturing and volume production of our new test handlers. In addition, our after sale support and warranty costs have been significantly higher with new test handlers than with our established products. Future technologies, processes and product developments may render our current or future product offerings obsolete and we might not be able to develop, introduce and successfully manufacture new products or make enhancements to our existing products in a timely manner to satisfy customer requirements or achieve market acceptance. Furthermore, we might not realize acceptable profit margins on such products.

THE SEMICONDUCTOR EQUIPMENT INDUSTRY IN GENERAL, AND THE TEST HANDLER MARKET IN PARTICULAR, IS HIGHLY COMPETITIVE.

The semiconductor test handler industry is intensely competitive and we face substantial competition from numerous companies throughout the world. Future competition may include companies that do not currently supply test handlers. While we believe we are the largest U.S. based supplier of semiconductor test handling equipment, we face substantial competition in the U.S. and throughout the world. The Japanese and Korean markets for test handling equipment are large and represent a significant percentage of the worldwide market. During the last five years we have had limited sales to Japanese and Korean customers who have historically purchased test handling equipment from Asian suppliers. Some of our competitors have substantially greater financial, engineering, manufacturing and customer support capabilities and offer more extensive product offerings than Cohu. 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 Cohu. We expect our competitors to continue to improve the design and performance of their current products and to introduce new products with improved performance capabilities. Our failure to introduce new products in a timely manner, the introduction by our competitors of products with perceived or actual advantages or disputes over rights of Cohu or our competitors to use certain intellectual property or technology could result in a loss of our competitive position and reduced sales of or margins on our existing products.

A LIMITED NUMBER OF CUSTOMERS ACCOUNT FOR A SUBSTANTIAL PERCENTAGE OF OUR NET SALES.

We rely on a limited number of customers for a substantial percentage of our net sales. In 1999, four customers of the semiconductor equipment segment accounted for 46% (60% in 1998) of our net sales. The loss of or a significant reduction in orders by these or other significant customers as a result of competitive products, market conditions, outsourcing final IC test to third parties that are not our customers or other factors, would adversely impact our financial condition and results of operations. Furthermore, the concentration of our revenues in a limited number of large customers may cause significant fluctuations in our future annual and quarterly operating results.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 2000

BUSINESS AND MARKET RISKS (CONT.)

OUR BACKLOG IS LIMITED AND MAY NOT ACCURATELY REFLECT FUTURE BUSINESS ACTIVITY.

Our order backlog has historically represented approximately three months of revenue and as a result our visibility over future business activity is limited. A significant portion of our semiconductor test handling equipment backlog at September 30, 2000 was for new products, including the Castle and Summit test handlers. Due to the possibility of customer changes in delivery schedules, cancellation of orders, potential delays in product shipments, difficulties in obtaining inventory parts from suppliers and failure to satisfy customer acceptance requirements, our backlog as of any point in time may not be representative of actual sales in any future period. Furthermore, all orders are subject to cancellation or rescheduling by the customer with limited penalty. A reduction in backlog during any particular period, such as occurred in the third quarter of 2000 where the Company's backlog declined to \$51.8 million at September 30, 2000 from \$72.9 at December 31, 1999, could have a material adverse effect on our business, financial condition and results of operations.

THE CYCLICAL NATURE OF THE SEMICONDUCTOR INDUSTRY PLACES ENORMOUS DEMANDS ON OUR OPERATIONS AND INFRASTRUCTURE.

The semiconductor equipment industry is characterized by dramatic and sometimes volatile changes in demand for its products. Changes in product demand result from a number of factors including the semiconductor industry's ever changing and unpredictable capacity requirements and changes in IC design and packaging. Sudden changes in demand for semiconductor equipment have a significant impact on our operations. In response to a severe industry downturn in 1998, we reduced our total workforce by approximately 40%. During 1999, we increased our workforce by more than 50% as business conditions in the semiconductor equipment industry and our order backlog improved. Such radical changes in workforce levels place enormous demands on our operations and infrastructure since newly hired personnel rarely possess the expertise and level of experience of current employees. We have in the past and may in the future experience difficulties, particularly in manufacturing, in training the large number of additions to our workforce. In addition, competition for the employment services of certain personnel, particularly those with technical skills, is intense. The volatility in headcount and business levels, combined with the cyclical nature of the semiconductor industry, may require that we invest substantial amounts in new operational and financial systems, procedures and controls and in improved and expanded facilities. We may not be able to successfully adjust our systems, facilities and production capacity to meet our customers' changing requirements. The inability to meet such requirements will have an adverse impact on our business, financial position and results of operations.

WE HAVE EXPERIENCED A SIGNIFICANT DECLINE IN TEST HANDLER SALES TO DRAM CUSTOMERS.

Sales of IC test handlers used in DRAM testing represented a significant percentage of Cohu's total semiconductor equipment related revenue during the period 1994 through 1998. Due to changes in IC package technology, gravity-feed handlers are no longer suitable for handling many types of DRAMs. As a result, we have seen a significant decline in sales of our gravity-feed test handler products. IC handlers used in DRAM applications account for a significant portion of the worldwide IC handler market. If we are unable to successfully develop and market new products or enhancements to existing products for DRAM applications our results of operations will be adversely impacted.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 2000

BUSINESS AND MARKET RISKS (CONT.)

WE ARE EXPOSED TO THE RISKS OF OPERATING A GLOBAL BUSINESS.

Cohu has operations located in various parts of the world to support our sales and services to the global semiconductor industry. Managing geographically dispersed operations presents difficult challenges associated with, among other things, organizational alignment and infrastructure, communications and information technology, inventory control, customer relationship management and cultural diversities. In addition, maintaining these geographically dispersed locations is expensive. We may not be able to manage our multiple operations in a cost effective and efficient manner. If we are unsuccessful in managing such operations effectively, our business and results of operations will be adversely affected.

FAILURE OF CRITICAL SUPPLIERS TO DELIVER SUFFICIENT QUANTITIES OF PARTS IN A TIMELY AND COST-EFFECTIVE MANNER COULD ADVERSELY IMPACT OUR OPERATIONS.

We use numerous vendors to supply parts, components and subassemblies for the manufacture of our products. It is not always possible to maintain multiple qualified suppliers for all of our parts, components and subassemblies; as a result, certain key parts may be available only from a single supplier or a limited number of suppliers. In addition, suppliers may cease manufacturing certain components that are difficult to replace without significant reengineering of our products. Cohu has experienced problems in obtaining adequate and reliable quantities of various parts and components from certain key suppliers. Our results of operations may be materially and adversely impacted if we do not receive sufficient parts to meet our requirements in a timely and cost effective manner.

WE ARE EXPOSED TO THE RISK THAT THIRD PARTIES MAY VIOLATE OUR PROPRIETARY RIGHTS OR ACCUSE US OF INFRINGING UPON THEIR PROPRIETARY RIGHTS.

Cohu relies on patent, copyright, trademark and trade secret laws to establish and maintain proprietary rights in our technology and products. Any of our proprietary rights may be challenged, invalidated or circumvented, and these rights may not provide significant competitive advantages. In addition, from time to time, we receive notices from third parties regarding patent or copyright claims. Any such claims, with or without merit, could be time-consuming to defend, result in costly litigation, divert management's attention and resources and cause Cohu to incur significant expenses. In the event of a successful claim of infringement against Cohu and our failure or inability to license the infringed technology or to substitute similar non-infringing technology, our business, financial condition and results of operations could be adversely affected.

A MAJORITY OF OUR REVENUES ARE GENERATED FROM EXPORTS TO FOREIGN COUNTRIES, PRIMARILY IN ASIA, THAT ARE SUBJECT TO ECONOMIC INSTABILITY AND WE COMPETE AGAINST A NUMBER OF ASIAN TEST HANDLING EQUIPMENT SUPPLIERS.

During 1999, 63% of our total net sales were exported to foreign countries, including 72% of the sales in the semiconductor equipment segment. The majority of our 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 Cohu. In addition, we face intense competition from a number of Asian suppliers that have certain advantages over U.S. suppliers,

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 2000

BUSINESS AND MARKET RISKS (CONT.)

including Cohu. These advantages include, among other things, proximity to customers, favorable tariffs and affiliation with significantly larger organizations. In addition, changes in the amount or price of semiconductors produced in Asia could impact the profitability or capital equipment spending programs of our foreign and domestic customers.

OUR NON SEMICONDUCTOR EQUIPMENT BUSINESSES HAVE EXPERIENCED LITTLE OR NO GROWTH AND DECLINING PROFITABILITY OVER THE LAST FIVE YEARS.

We develop, manufacture and sell products used in closed circuit television, metal detection and microwave radio applications. These products are sold in highly competitive markets and many competitors are segments of large, diversified companies with substantially greater financial, engineering, marketing, manufacturing and customer support capabilities than Cohu. In addition, there are smaller companies that provide or may provide innovative technology incorporated in products that may compete favorably against those of Cohu. We have seen a decline in the operating results of these businesses over the last several years and the future prospects for certain of these businesses remain uncertain. We may not be able to continue to compete successfully in any of these businesses.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

INTEREST RATE RISK

At September 30, 2000 our investment portfolio includes fixed-income securities of approximately \$91 million. These securities are subject to interest rate risk and will decline in value if interest rates increase. Due to the relatively short duration of our investment portfolio, an immediate 10 percent increase in interest rates would have no material impact on our financial condition or results of operations.

FOREIGN CURRENCY EXCHANGE RISK.

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

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 our filings with the Securities and Exchange Commission, including but not limited to the 1999 Annual Report on Form 10-K, that could cause actual results to differ materially from those projected or forecasted. Cohu undertakes no obligation to update the information, including the forward-looking statements, in this Form 10-Q.

PART II OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On October 27, 2000 the Company agreed to acquire certain real property in Poway, California consisting of a 338,000 square-foot building on approximately 20 acres of land. The purchase price of \$21.3 million was funded from the Company's existing cash reserves. The Company plans on selling its facilities in San Diego, California and moving its corporate headquarters and the San Diego operations of its Delta Design subsidiary to the Poway facility in 2001. Poway is a suburb of San Diego and the new facility is approximately 10 miles from the Company's current San Diego location.

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

(a) Exhibits:

27.1 - Financial Data Schedule

(b) Reports on Form 8-K: The Company did not file any reports on Form 8-K during the quarter ended September 30, 2000.

SIGNATURES

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

COHU, INC.

(Registrant)

Date: October 30, 2000

/s/ James A. Donahue

James A. Donahue
President & Chief Executive Officer

Date: October 30, 2000

/s/ John H. Allen

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

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM 2000 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY TO SUCH FINANCIAL STATEMENTS.

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9-MOS			
	DEC-31-2000		
	JAN-01-2000		
	SEP-30-2000		
		92,318	
		10,240	
		52,874	
		0	
		49,218	
	218,470		
		37,084	
	20,052		
	236,238		
39,450			0
	0		
		0	
		20,253	
		174,896	
236,238			
		236,406	
	236,406		
		142,716	
	142,716		
	0		
	0		
	0		
	50,349		
	17,500		
32,849			
	0		
	0		
		0	
	32,849		
	1.63		
	1.55		