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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D. C. 20549**

# FORM 10-Q

(Mark One)

**[ü] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2004**

**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**<br>*(State or other jurisdiction of Incorporation or Organization)* | **95-1934119**<br>*(I.R.S. Employer Identification No.)* |
| **12367 Crosthwaite Circle, Poway, California**<br>*(Address of principal executive office)* | **92064-6817**<br>*(Zip Code)* |

**Registrant's telephone number, including area code (858) 848-8100**

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 [ü] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ü] No [ ]

As of June 30, 2004 the Registrant had 21,508,598 shares of its $1.00 par value common stock outstanding.

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**Item 1.**

## COHU, INC.

### CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)

| | June 30, 2004 | December 31, 2003 * |
|---|---|---|
| | (Unaudited) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 7,293 | $ 7,127 |
| Short-term investments | 108,320 | 100,493 |
| Accounts receivable, less allowance for doubtful accounts of $1,527 in 2004 and $1,177 in 2003 | 39,349 | 25,578 |
| Inventories: | | |
| Raw materials and purchased parts | 22,292 | 18,159 |
| Work in process | 10,230 | 8,238 |
| Finished goods | 6,112 | 5,239 |
| | 38,634 | 31,636 |
| Deferred income taxes | 3,553 | 3,553 |
| Other current assets | 2,986 | 3,151 |
| Total current assets | 200,135 | 171,538 |
| Note receivable | — | 8,978 |
| Property, plant and equipment, at cost: | | |
| Land and land improvements | 7,978 | 7,978 |
| Buildings and building improvements | 25,211 | 25,055 |
| Machinery and equipment | 24,908 | 23,948 |
| | 58,097 | 56,981 |
| Less accumulated depreciation and amortization | (27,770) | (26,298) |
| Net property, plant and equipment | 30,327 | 30,683 |
| Goodwill | 8,340 | 8,340 |
| Other intangible assets, net of accumulated amortization of $917 in 2004 and $642 in 2003 | 733 | 1,008 |
| Other assets | 238 | 183 |
| | $239,773 | $220,730 |
| **LIABILITIES AND STOCKHOLDERS’ EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 9,683 | $ 7,250 |
| Accrued compensation and benefits | 7,414 | 5,986 |
| Accrued warranty | 4,062 | 3,479 |
| Customer advances | 587 | 402 |
| Deferred profit | 9,831 | 4,132 |
| Income taxes payable | 2,477 | 2,090 |
| Other accrued liabilities | 3,310 | 3,478 |
| Total current liabilities | 37,364 | 26,817 |
| Accrued retiree medical benefits | 1,285 | 1,267 |
| Deferred income taxes | 416 | 416 |
| Commitments and contingencies | | |
| Stockholders’ equity: | | |
| Preferred stock, $1 par value; 1,000 shares authorized, none issued | — | — |
| Common stock, $1 par value; 60,000 shares authorized, 21,509 shares issued and outstanding in 2004 and 21,375 shares in 2003 | 21,509 | 21,375 |
| Paid in capital | 23,677 | 22,140 |
| Retained earnings | 155,584 | 148,691 |
| Accumulated other comprehensive income (loss) | (62) | 24 |
| Total stockholders’ equity | 200,708 | 192,230 |
| | $239,773 | $220,730 |

* Derived from December 31, 2003 audited financial statements.

*The accompanying notes are an integral part of these statements.*

## COHU, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)
(in thousands, except per share amounts)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Net sales | $47,337 | $32,084 | $83,276 | $63,163 |
| Cost and expenses: | | | | |
| Cost of sales | 26,425 | 21,109 | 47,442 | 41,805 |
| Research and development | 6,576 | 5,556 | 12,760 | 12,494 |
| Selling, general and administrative | 7,230 | 6,028 | 14,090 | 11,943 |
| | 40,231 | 32,693 | 74,292 | 66,242 |
| Income (loss) from operations | 7,106 | (609) | 8,984 | (3,079) |
| Gain from sale of land held for future development | — | 7,873 | — | 7,873 |
| Investment impairment writedown | — | (2,500) | — | (2,500) |
| Interest income | 336 | 442 | 956 | 1,142 |
| Income before income taxes | 7,442 | 5,206 | 9,940 | 3,436 |
| Income tax provision | 500 | 1,100 | 900 | 700 |
| Net income | $ 6,942 | $ 4,106 | $ 9,040 | $ 2,736 |
| Income per share: | | | | |
| Basic | $ 0.32 | $ 0.19 | $ 0.42 | $ 0.13 |
| Diluted | $ 0.32 | $ 0.19 | $ 0.41 | $ 0.13 |
| Weighted average shares used in computing income per share: | | | | |
| Basic | 21,484 | 21,098 | 21,452 | 21,005 |
| Diluted | 21,978 | 21,631 | 22,026 | 21,457 |
| Cash dividends declared per share | $ 0.05 | $ 0.05 | $ 0.10 | $ 0.10 |

*The accompanying notes are an integral part of these statements.*

**COHU, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited)
(in thousands)

| | Six Months Ended June 30, 2004 | Six Months Ended June 30, 2003 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 9,040 | $ 2,736 |
| Adjustments to reconcile net income to net cash provided from operating activities: | | |
| Depreciation and amortization | 1,975 | 2,153 |
| Gain from sale of land held for future development | — | (7,873) |
| Loss on equipment disposals | — | 126 |
| Investment impairment writedown | — | 2,500 |
| Increase (decrease) in accrued retiree medical benefits | 18 | (6) |
| Changes in current assets and liabilities: | | |
| Accounts receivable | (13,771) | (525) |
| Inventories | (6,998) | (5,793) |
| Other current assets | 165 | 500 |
| Accounts payable | 2,433 | 1,427 |
| Customer advances | 185 | (2,599) |
| Deferred profit | 5,699 | 946 |
| Income taxes payable | 387 | — |
| Accrued compensation, warranty and other liabilities | 1,843 | 202 |
| Net cash provided from (used for) operating activities | 976 | (6,206) |
| Cash flows from investing activities: | | |
| Purchases of short-term investments | (98,139) | (62,766) |
| Sales and maturities of short-term investments | 90,226 | 37,695 |
| Net proceeds from sale of land held for future development | — | 8,837 |
| Purchases of property, plant and equipment | (1,344) | (427) |
| Payments on note receivable | 8,978 | 206 |
| Other assets | (55) | (52) |
| Net cash used for investing activities | (334) | (16,507) |
| Cash flows from financing activities: | | |
| Issuance of stock, net | 1,671 | 3,901 |
| Cash dividends | (2,147) | (2,094) |
| Net cash provided from (used for) financing activities | (476) | 1,807 |
| Net increase (decrease) in cash and cash equivalents | 166 | (20,906) |
| Cash and cash equivalents at beginning of period | 7,127 | 32,696 |
| Cash and cash equivalents at end of period | $ 7,293 | $ 11,790 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid (received) during the period for: | | |
| Income taxes, net of refunds | $ 486 | $ (57) |

*The accompanying notes are an integral part of these statements.*

**COHU, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**June 30, 2004**

## 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. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and should be read in conjunction with the consolidated financial statements included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2003 and management’s discussion and analysis of financial condition and results of operations included elsewhere herein. The operating results for the three and six months ended June 30, 2004, are not necessarily indicative of the operating results for the entire year or any future period.

### Revenue Recognition

Cohu’s revenue recognition policy is disclosed in Note 1 of the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2003. As more fully described in that policy, revenue from products that have not previously satisfied customer acceptance is recognized upon customer acceptance. The gross profit on sales that are not recognized is generally recorded as deferred profit and reflected as a current liability in the consolidated balance sheet.

The Company has an $8.5 million contract to provide microwave communications equipment for a border security command center and infrastructure system in the United Arab Emirates. The contract, which utilizes the Company’s most advanced microwave communications technology that has not been installed in an application of this size and complexity, requires that 40% of the total contract price be paid after the system has been fully accepted by the customer. As a result of these factors and the inability to make reasonably dependable estimates of progress toward completion and acceptance, the Company will recognize all revenue and related costs under this contract in the period the system is accepted by the customer. Through June 30, 2004, the Company had deferred approximately $4.8 million of revenue under the contract.

At June 30, 2004, the Company had total deferred revenue of approximately $22.2 million and deferred profit of $9.8 million. At December 31, 2003, the Company had total deferred revenue of approximately $9.3 million and deferred profit of $4.1 million. The increase in deferred revenue and profit is primarily related to the deferral of revenue on certain new semiconductor test handlers and microwave communications equipment that have been shipped and installed and are awaiting customer acceptance.

### Stock-Based Compensation

Cohu has several stock-based compensation plans that are described more fully in Note 10 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2003. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. No stock-based employee compensation cost is reflected in the consolidated statements of income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The proforma information presented in the following table illustrates the effect on net income and net income per share if Cohu had applied the fair value recognition provisions of Financial Accounting Standards Board (“FASB”) Statement No. 123, *Accounting for Stock-Based Compensation*, as amended by FASB 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*, to stock-based employee compensation.

**COHU, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**June 30, 2004**

| (in thousands, except per share amounts) | Three months ended June 30, 2004 | Three months ended June 30, 2003 | Six months ended June 30, 2004 | Six months ended June 30, 2003 |
|---|---|---|---|---|
| Net income, as reported | $6,942 | $4,106 | $ 9,040 | $ 2,736 |
| Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect | (951) | (755) | (1,917) | (1,474) |
| Pro forma net income | $5,991 | $3,351 | $ 7,123 | $ 1,262 |
| Net income per share: | | | | |
| Basic-as reported | $ 0.32 | $ 0.19 | $ 0.42 | $ 0.13 |
| Basic-pro forma | $ 0.28 | $ 0.16 | $ 0.33 | $ 0.06 |
| Diluted-as reported | $ 0.32 | $ 0.19 | $ 0.41 | $ 0.13 |
| Diluted-pro forma | $ 0.27 | $ 0.15 | $ 0.32 | $ 0.06 |

**Retiree Medical Benefits**

Cohu provides post-retirement health benefits to certain executives and directors under a noncontributory plan. The net periodic benefit cost during the three and six month periods ended June 30, 2004 and 2003 was not significant.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted on December 8, 2003. In accordance with FASB Staff Position ("FSP") No. FAS 106-1, the accumulated post-retirement benefit obligation and net periodic benefit cost in the consolidated financial statements do not reflect the effects, if any, of the Act. In April 2004, the FASB staff issued FSP FAS 106-2, which supercedes FSP FAS 106-1. FSP FAS 106-2 applies to sponsors of single-employer defined benefit postretirement health care plans for which (a) the employer has concluded that prescription drug benefits available under the plan are "actuarially equivalent" to Medicare Part D and thus qualify for the subsidy under the Act and (b) the expected subsidy will offset or reduce the employer's share of the cost of the underlying postretirement prescription drug coverage on which the subsidy is based. In general, FSP FAS 106-2 concludes that the plan sponsors should follow FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, in accounting for the effects of the Act. For employers, including Cohu, that have elected deferral under FSP FAS 106-1, this guidance is effective for the first interim period beginning after June 15, 2004. The Company has not yet determined the effects of this guidance on the Company's financial position or results of operations; however, the impact is not expected to be significant.

**Recent Accounting Pronouncement**

In March 2004, the FASB issued an exposure document entitled *Share-Based Payment — an amendment of Statements No. 123 and 95 (Proposed Statement of Financial Accounting Standards)*. The proposed Statement would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25 and generally require instead that such transactions be accounted for using a fair-value-based method. This accounting, if approved, will result in significant compensation expense charges to our future results of operations. The proposed Statement, if adopted, would be applied to public entities prospectively for fiscal years beginning after December 15, 2004, as if all share-based compensation awards granted, modified, or settled after December 15, 1994, had been accounted for using the fair-value method of accounting.

**COHU, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**June 30, 2004**

**2. 2004 Results of Operations**

In February 2004, the Company and a foreign sales representative amended a Product Representation Agreement that was originally entered into on April 1, 2003. The amendment reduced the commissions to be paid by the Company to the sales representative on certain previously recorded and future sales. In the quarter ended March 31, 2004, the Company reduced commission expense by $129,000 and $103,000, for commissions previously expensed in 2003 and 2004, respectively. Accordingly, selling, general and administrative expense in the accompanying statement of income for the six months ended June 30, 2004 has been reduced by $232,000 as a result of this amendment.

In 2003, the Company recorded a charge to cost of sales of approximately $1,700,000 as a result of inventory market valuation writedowns. In 2004, the Company sold certain of the written down inventory and as a result the Company's cost of sales and the related gross profit was favorably impacted by approximately $370,000, and $1,070,000 for the three and six months ended June 30, 2004, respectively.

In 2001 and 2002, the Company accrued amounts totaling approximately $1.2 million for customer sales credits. This amount is included in accounts payable at June 30, 2004 and December 31, 2003. If the customer credits are not utilized, the liability will be eliminated with a corresponding credit to income in the period the credits expire.

**3. Income Per Share**

Income per share is computed in accordance with FASB Statement No. 128, *Earnings per Share*. Basic income per share is computed using the weighted average number of common shares outstanding during each period. Diluted income per share includes the dilutive effect of common shares potentially issuable upon the exercise of stock options. For purposes of computing diluted income per share, stock options with exercise prices that exceed the average fair market value of the Company's common stock for the period are excluded. For the three and six months ended June 30, 2004, options to purchase approximately 654,000 and 360,000 shares of common stock were excluded from the computation, respectively. For the three and six months ended June 30, 2003, options to purchase approximately 287,000 and 294,000 shares of common stock were excluded from the computation, respectively. The following table reconciles the denominators used in computing basic and diluted income per share:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| **(in thousands)** | **2004** | **2003** | **2004** | **2003** |
| Weighted average common shares outstanding | 21,484 | 21,098 | 21,452 | 21,005 |
| Effect of dilutive stock options | 494 | 533 | 574 | 452 |
| | 21,978 | 21,631 | 22,026 | 21,457 |

**4. Income Taxes**

The income tax provision included in the statements of income for the three and six months ended June 30, 2004 and 2003, is based on the estimated annual effective tax rate for the entire year. These estimated effective tax rates are subject to adjustment in subsequent quarterly periods as the Company's estimates of pretax income or loss for the year are increased or decreased. The effective tax rate for the three and six months ended June 30, 2004 is less than the U.S. federal statutory rate primarily due to the significant deferred tax asset valuation allowance recorded at December 31, 2003.

In accordance with FASB Statement No. 109, *Accounting for Income Taxes*, net deferred tax assets are reduced by a valuation allowance, if based on all the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. A valuation allowance of $11,704,000 had been provided on deferred tax assets at December 31, 2003, primarily due to uncertainties of realizing net deferred tax assets in excess of

**COHU, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**June 30, 2004**

income expected to be generated from future income and certain tax planning strategies. The Company determined that the valuation allowance was required based upon its recent losses, and the likelihood of generating sufficient additional taxable income in future years to obtain benefit from the reversal of temporary differences and net operating loss and tax credit carryforwards.

At June 30, 2004, the Company reassessed the appropriateness of the valuation allowance. We concluded that, despite the improvement in operating results that were significantly better than forecast, it would be premature to reverse the valuation allowance that existed at December 31, 2003 other than to the extent necessary to reduce current tax expense generated by 2004 income. The Company will continue to assess the appropriateness of the valuation allowance in the third and fourth quarters of 2004. The Company may adjust the allowance if, based on a careful assessment of business prospects and estimates of future income, the Company concludes that all or a portion of the allowance is no longer required. A reduction in the allowance would result in a corresponding credit to income tax expense.

The IRS is currently conducting a routine examination of Cohu's consolidated tax returns for the period 2000 through 2002. The Company expects the IRS examination to be completed in 2004. If the examination is concluded in 2004, any adjustments that result from the IRS examination will be reflected in the Company's 2004 results of operations. The Company believes that such adjustments, if any, are adequately provided for in the consolidated financial statements. A favorable outcome from the examination would result in a credit to income tax expense in the quarter the examination is concluded.

The Company has derived significant tax benefits from the research credit under Section 41 of the Internal Revenue Code and the Extraterritorial Income Exclusion (ETI). The research credit expired on June 30, 2004 and the ETI is likely to be repealed due to pressure from the World Trade Organization. If the ETI is repealed and replacement legislation is not enacted and/or the research credit is not extended beyond June 30, 2004, the Company's future tax rate will be adversely impacted.

**5. Goodwill, Investments and Other Intangible Assets**

In June 2001, the FASB issued Statement No. 142, *Goodwill and Other Intangible Assets*. Under Statement No. 142, goodwill and other intangible assets with indefinite useful lives are not amortized, but are reviewed annually for impairment or more frequently if impairment indicators arise. Separable intangible assets that have finite lives are amortized over their useful lives. Under Statement No. 142, goodwill and other intangible assets with indefinite useful lives resulting from acquisitions completed after June 30, 2001 are not amortized. At June 30, 2004, the Company had goodwill of $8.3 million that resulted from an acquisition completed in July 2001.

The Company performed the required annual goodwill impairment test as of October 1, 2003. Cohu did not recognize any goodwill impairment as a result of performing this annual test. A future decline in the fair value of Cohu's semiconductor equipment business may indicate goodwill impairment that could result in a charge to Cohu's future operating results.

In August 2001, the FASB issued Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which supersedes Statement No. 121. Statement No. 144 addresses financial accounting and reporting for the impairment of long-lived assets (excluding goodwill) and for long-lived assets to be disposed of. However, Statement No. 144 retains the fundamental provisions of Statement No. 121 for recognition and measurement of the impairment of long-lived assets to be held and used. Cohu adopted Statement No. 144 effective January 1, 2002.

In the fourth quarter of 2002, Cohu entered into a $1,700,000 license agreement for certain intellectual property and know-how from LiveTools Technology SA. The Company is amortizing the intangible asset

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004

to expense over the three-year exclusive license period. Accumulated amortization at June 30, 2004 and December 31, 2003, was $917,000 and $642,000, respectively. Amortization expense was $138,000 and $275,000 in the three and six month periods ended June 30, 2004, respectively and $138,000 and $275,000 in the three and six month periods ended June 30, 2003, respectively. The estimated remaining amortization expense in future periods is 2004 — $275,000; 2005 — $458,000.

**6. Geographic Consolidation**

On April 10, 2003, Cohu announced that its Delta Design, Inc. subsidiary (“Delta”) was relocating its Littleton, Massachusetts operation to its headquarters facility in Poway, California. The consolidation, which will result in approximately 50 of the 65 employees being terminated, was substantially completed in March 2004 and the remaining charges to operations for severance and other payroll costs are expected to be minimal. For the three month period ended June 30, 2004 the Company recorded charges to operations, totaling $5,000 for severance and one-time termination benefits. These charges are included in cost of sales ($1,000), research and development ($3,000) and selling, general and administrative expense ($1,000). For the six month period ended June 30, 2004, the Company recorded charges to operations totaling $193,000 for severance and one-time termination benefits. These charges are included in cost of sales ($58,000), research and development ($61,000) and selling, general and administrative expense ($74,000). In the quarter ended June 30, 2003, the Company recorded charges to operations totaling $194,000 for severance and one-time termination benefits and $84,000 for fixed asset impairment. These charges are included in cost of sales ($112,000), research and development ($132,000) and selling, general and administrative expense ($34,000). Cumulative charges to operations for severance and other exit costs for the period April 10, 2003 to June 30, 2004, were $1,061,000.

The following table reconciles amounts accrued and paid under the consolidation plan.

| | Severance and other payroll | Other exit costs | Total |
|---|---|---|---|
| Liability at December 31, 2003 | $ 407,000 | $— | $ 407,000 |
| Costs accrued | 188,000 | — | 188,000 |
| Amounts paid or charged | (148,000) | — | (148,000) |
| Liability at March 31, 2004 | 447,000 | — | 447,000 |
| Costs accrued | 5,000 | — | 5,000 |
| Amounts paid or charged | (72,000) | — | (72,000) |
| Liability at June 30, 2004 | $ 380,000 | $— | $ 380,000 |

In April 2003, Delta completed the relocation of its Columbus, Ohio operations to its facility in Poway, California. The consolidation has reduced costs without impacting the revenue generating activities of Delta. The Company recorded charges to operations in the quarter ended March 31, 2003, totaling $630,000 for severance and one-time termination benefits and $117,000 for contract termination costs primarily related to the leased facility. These charges are included in cost of sales ($47,000), research and development ($570,000) and selling, general and administrative expense ($130,000). Exit related costs charged to operations subsequent to the quarter ended March 31, 2003 were not significant.

**7. Real Estate Transactions**

On January 13, 2003, the Company extended the term of a $9.2 million promissory note with TC Kearny Villa, L.P. (“TC”). The 8% non-recourse note was secured by a deed of trust on land and buildings in San Diego, California sold by Cohu to TC in April 2001. The note amendment extended the due date of the note to June 30, 2005 and provided for principal payments, assuming a 20-year amortization schedule, of $206,000 and $223,000 on April 1, 2003 and 2004, respectively. Interest at 8% was to continue to be paid monthly.

**COHU, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**June 30, 2004**

In February 2004 the Company and TC entered into an agreement whereby the Company released its beneficial interest in the property securing the note receivable in exchange for full payment of the note and $272,000 of accrued interest. The Company received net cash proceeds from TC totaling $9,250,000 on February 19, 2004. The interest received was recorded as income in 2004.

## 8. Comprehensive Income (Loss)

Comprehensive income (loss) represents all non-owner changes in stockholders' equity and consists of, on an after-tax basis where applicable, the following:

| (in thousands) | Three months ended June 30, 2004 | 2003 | Six months ended June 30, 2004 | 2003 |
|---|---|---|---|---|
| Net income | $6,942 | $4,106 | $9,040 | $2,736 |
| Change in unrealized gain (loss) on investments | (87) | (35) | (86) | (95) |
| Comprehensive income | $6,855 | $4,071 | $8,954 | $2,641 |

Accumulated other comprehensive income (loss) totaled $(62,000) and $24,000 at June 30, 2004 and December 31, 2003, respectively, and was attributed to after-tax unrealized losses and gains on investments.

## 9. Segment and Related Information

The following is a summary of Cohu's significant accounts and balances by segment, reconciled to consolidated totals. Intersegment sales were not significant in any period.

| (in thousands) | Three months ended June 30, 2004 | 2003 | Six months ended June 30, 2004 | 2003 |
|---|---|---|---|---|
| *Net sales by segment:* | | | | |
| Semiconductor equipment | $39,315 | $25,516 | $68,016 | $49,410 |
| Television cameras | 5,339 | 4,242 | 9,941 | 8,437 |
| Metal detection | 1,616 | 1,404 | 3,308 | 2,863 |
| Microwave communications | 1,067 | 922 | 2,011 | 2,453 |
| Total consolidated net sales and net sales for reportable segments | $47,337 | $32,084 | $83,276 | $63,163 |
| *Segment profit (loss):* | | | | |
| Semiconductor equipment | $ 8,213 | $ 590 | $11,699 | $ (1,232) |
| Television cameras | 601 | 152 | 611 | 304 |
| Metal detection | (164) | (200) | (309) | (320) |
| Microwave communications | (850) | (693) | (1,701) | (823) |
| Profit (loss) for reportable segments | 7,800 | (151) | 10,300 | (2,071) |
| *Other unallocated amounts:* | | | | |
| Corporate expenses | (694) | (458) | (1,316) | (1,008) |
| Interest income | 336 | 442 | 956 | 1,142 |
| Gain from sale of land held for future development | — | 7,873 | — | 7,873 |
| Investment impairment writedown | — | (2,500) | — | (2,500) |
| Income before income taxes | $ 7,442 | $ 5,206 | $ 9,940 | $ 3,436 |

**COHU, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**June 30, 2004**

| (in thousands) | June 30, 2004 | December 31, 2003 |
|---|---|---|
| *Total assets by segment:* | | |
| Semiconductor equipment | $100,276 | $ 89,926 |
| Television cameras | 9,498 | 8,266 |
| Metal detection | 4,107 | 3,567 |
| Microwave communications | 6,821 | 7,681 |
| Total assets for reportable segments | 120,702 | 109,440 |
| Corporate, principally cash and investments and deferred taxes | 119,071 | 111,290 |
| Total consolidated assets | $239,773 | $220,730 |

## 10. Contingencies

The Company is currently subject to various legal proceedings, lawsuits, examinations by various tax authorities and claims that have arisen in the ordinary course of its businesses. Although the outcome of these legal proceedings, claims and examinations cannot be predicted with certainty, the Company does not believe that any of these matters will have a material adverse effect on its financial position or results of its operations.

## 11. Guarantees

Cohu products are generally sold with a 12-month to 24-month warranty period following sale or installation. Parts and labor are covered under the terms of the warranty agreement. The warranty provision is based on historical experience by product and configuration.

Changes in accrued warranty during the three and six months ended June 30, 2004 and 2003 were as follows (in thousands):

| | 2004 | 2003 |
|---|---|---|
| Balance, December 31 | $ 3,479 | $ 2,878 |
| Warranty expense accruals | 1,406 | 1,081 |
| Warranty payments | (1,255) | (1,072) |
| Balance, March 31 | 3,630 | 2,887 |
| Warranty expense accruals | 1,702 | 1,308 |
| Warranty payments | (1,270) | (1,286) |
| Balance, June 30 | $ 4,062 | $ 2,909 |

During the ordinary course of business, Cohu also provides standby letters of credit to certain parties as required. As of June 30, 2004, the maximum potential amount of future payments that Cohu could be required to make under these standby letters of credit is approximately $2.5 million. Cohu has not recorded any liability in connection with these guarantee arrangements beyond that required to appropriately account for the underlying transaction being guaranteed. Cohu does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these arrangements.

## 12. Subsequent Event

On July 20, 2004, the Cohu Board of Directors declared a $0.05 per share cash dividend payable November 5, 2004 to stockholders of record on September 10, 2004.

**Item 2.**

**COHU, INC.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**
**AND RESULTS OF OPERATIONS**
**June 30, 2004**

*This Form 10-Q contains certain forward-looking statements including expectations of market conditions, challenges and plans, 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", "plan", "intend" and similar expressions are intended to identify such statements. Although the forward-looking statements in this Form 10-Q reflect the good faith judgment of our management, such statements are subject to various risks and uncertainties, including but not limited to those discussed herein and, in particular, under the caption "Trends, Risks and Uncertainties" that could cause actual results to differ materially from those projected.*

**OVERVIEW**

Cohu's primary business activity involves the development, manufacture, marketing, sale and servicing of test handling equipment for the global semiconductor industry. During the three-year period ended December 31, 2003, the semiconductor equipment industry experienced a severe business downturn. Our net sales in each of the last three years declined more than 50% from the record 2000 year. This decrease in revenue was generally comparable to most other companies in the semiconductor equipment industry, particularly the "back-end" semiconductor equipment companies that would be considered the closest to Cohu in terms of business cycles.

In the six months ended June 30, 2004, Cohu's semiconductor equipment business, as well as the semiconductor equipment industry, saw significantly improved order bookings and backlog, an indication that the severe three-year industry downturn had ended. Additionally, our operating results improved during the period in part due to improved sales product mix resulting in a higher gross margin.

Our operating results in the last three years have been impacted by charges to cost of sales related to excess and obsolete and lower of cost or market inventory issues. These charges totaled approximately $24.5 million during the three-year period ended December 31, 2003 (approximately $1.1 million, net, in the six months ended June 30, 2004) and were primarily the result of decreases in customer forecasts, competitive conditions in the test handler industry and, to a lesser extent, changes in our sales product mix as a result of new product introductions. Exposures related to inventories are common in the semiconductor equipment industry due to the narrow customer base, the custom nature of the products and inventory and the shortened product life cycles caused by rapid changes in semiconductor manufacturing technology. Increased competition, particularly in the last several years, has also negatively impacted our gross margins on certain products and we believe it is likely these conditions will exist for the foreseeable future.

Our other operating costs consist of research and development ("R&D") and selling, general and administrative expenses ("SG&A"). SG&A has been relatively consistent during the last three years while our R&D expense declined in 2003, in part as a result of the closure of our Columbus, Ohio engineering operation.

Our non-semiconductor equipment businesses have comprised approximately 20% of our revenues during the last three years. The operating results of these businesses have deteriorated over the last several years and they accounted for a significant portion of our loss from operations in 2003.

Our financial condition is very strong with significant cash and short-term investments and no long-term debt. Despite the severe downturn in the semiconductor equipment industry, during the three-year period ended December 31, 2003 we generated $30.7 million of net cash from operating activities and total cash and investments have increased from $92.6 million at December 31, 2000 to $115.6 million at June 30, 2004.

**COHU, INC.**
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## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Cohu's discussion and analysis of its financial condition and results of operations are based upon Cohu's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires Cohu to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, Cohu evaluates its estimates, including those related to bad debts, inventories, intangible assets, income taxes, warranty obligations and contingencies and litigation. Cohu bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Cohu believes the following critical accounting policies, that are more fully described in the Cohu Consolidated Financial Statements included in the Cohu Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission, affect the significant judgments and estimates used in the preparation of its consolidated financial statements.

***Revenue Recognition:*** Cohu generally recognizes revenue upon shipment and title passage for established products (i.e., those that have previously satisfied customer acceptance requirements) that provide for full payment tied to shipment. Revenue for products that have not previously satisfied customer acceptance requirements or from sales where customer payment dates are not determinable is recognized upon customer acceptance.

***Accounts Receivable****:* Cohu maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of Cohu's customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

***Warranty:*** Cohu provides for the estimated costs of product warranties in the period sales are recognized. Cohu's warranty obligation estimates are affected by historical product shipment levels, product performance and material and labor costs incurred in correcting product performance problems. Should product performance, material usage or labor repair costs differ from Cohu's estimates, revisions to the estimated warranty liability would be required.

***Inventory:*** Cohu records valuation reserves on its inventory for estimated excess and obsolete inventory and lower of cost or market concerns equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future product demand, market conditions and product selling prices. If future product demand, market conditions or product selling prices are less or more favorable than those projected by management or if continued modifications to products are required to meet specifications or other customer requirements, changes to inventory reserves may be required.

***Income Taxes:*** Cohu estimates income taxes based on the various jurisdictions where we conduct business. This requires us to estimate our actual current tax exposure and to assess temporary differences that result from differing treatment of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities that are reflected in the consolidated balance sheet. The net deferred tax assets are reduced by a valuation allowance if, based upon all available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Establishing a valuation allowance or increasing this allowance in an accounting period results in tax expense in the statement of income. Cohu must make significant judgments to determine the provision for income taxes, deferred tax assets and liabilities and any valuation allowance to be recorded against net deferred tax assets. Our net deferred tax asset balance as of December 31, 2003 was $3.1 million, net of a valuation allowance of $11.7 million. We recorded the valuation allowance in the fourth quarters of 2002 and 2003 as a result of our recent losses and to reflect uncertainties concerning our ability to generate future taxable income and our corresponding ability to utilize our deferred tax assets. The deferred tax assets consist primarily of deductible temporary differences, tax credit and net operating loss carryforwards.

***Intangible Assets:*** At June 30, 2004, intangible assets other than goodwill were evaluated for impairment using undiscounted cash flows expected to result from the use of the assets as required by FASB Statement No. 144 and we concluded there was no impairment loss. Cohu is required to assess goodwill impairment using the methodology prescribed by FASB Statement No. 142. Statement No. 142 requires that goodwill be tested for impairment on an annual basis and more frequently in certain circumstances. The required annual goodwill impairment test is performed as of October 1 of each year. Cohu did not recognize any goodwill impairment as a result of performing this annual test.

***Contingencies:*** Cohu is subject to certain contingencies that arise in the ordinary course of its businesses. In accordance with FASB Statement No. 5, *Accounting for Contingencies*, we assess the likelihood that future events will confirm the existence of a loss or an impairment of an asset. If a loss or asset impairment is probable, as defined in Statement No. 5 and the amount of the loss or impairment is reasonably estimable, we accrue a charge to operations in the period such conditions become known.

***Recent Accounting Pronouncement:*** In March 2004, the FASB issued an exposure document entitled *Share-Based Payment — an amendment of Statements No. 123 and 95 (Proposed Statement of Financial Accounting Standards)*. The proposed Statement would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25 and generally require instead that such transactions be accounted for using a fair-value-based method. This accounting, if approved, will result in significant compensation expense charges to our future results of operations. The proposed Statement, if adopted, would be applied to public entities prospectively for fiscal years beginning after December 15, 2004, as if all share-based compensation awards granted, modified, or settled after December 15, 1994, had been accounted for using the fair-value method of accounting.

**RESULTS OF OPERATIONS**

The following table summarizes certain operating data as a percentage of net sales for the three and six month periods ended June 30.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 55.8% | 65.8% | 57.0% | 66.2% |
| Gross margin | 44.2% | 34.2% | 43.0% | 33.8% |
| Research and development expense | 13.9% | 17.3% | 15.3% | 19.8% |
| Selling, general and administrative expense | 15.3% | 18.8% | 16.9% | 18.9% |
| Income (loss) from operations | 15.0% | (1.9)% | 10.8% | (4.9)% |

***Second Quarter 2004 Compared to Second Quarter 2003***

Our net sales increased 48% to $47.3 million in 2004, compared to net sales of $32.1 million in 2003. Sales of semiconductor test handling equipment in 2004 increased 54% from the 2003 period and accounted for 83% of consolidated net sales in 2004, versus 80% in 2003. Sales of television cameras and other equipment accounted for 11% of net sales in 2004 and increased 26% when compared to 2003, while the combined sales of metal detection and microwave equipment increased 15%.

At June 30, 2004, the Company had deferred revenue totaling approximately $22.2 million and deferred profit of $9.8 million. At December 31, 2003, the Company had deferred revenue totaling approximately $9.3 million and deferred profit of $4.1 million. The increase in deferred revenue and profit is primarily related to the deferral of revenue on certain new semiconductor test handlers and microwave communications equipment that have been shipped and installed and are awaiting customer acceptance.

***Gross margin***

Gross margin as a percentage of net sales increased to 44.2% in 2004 from 34.2% in 2003, as a result of higher margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins increased in 2004, primarily as a result of changes in product mix, reduced charges for excess and obsolete inventory and increased business volume. Cohu computes the majority of its excess and obsolete inventory reserve requirements using a one-year inventory usage forecast. During 2004 and 2003, we recorded net charges to cost of sales of approximately $0.9 million and $2.5 million, respectively, for excess and obsolete inventory. While we believe our reserves for excess and obsolete inventory are adequate to cover our exposures at June 30, 2004, reductions in customer forecasts or continued modifications to products, including our newest handler Delta ***EDGE***™, may require additional charges to operations that could negatively impact our gross margin in future periods. Conversely, if our actual inventory usage is greater than our forecasted usage, our gross margin may be favorably impacted in future periods.

In 2003, we recorded a charge to cost of sales of approximately $1.7 million as a result of inventory market valuation writedowns. In the quarter ended June 30, 2004, we sold certain of this inventory and our gross margin was favorably impacted by approximately $0.4 million.

***Research And Development Expense***

R&D expense as a percentage of net sales was 13.9% in 2004, compared to 17.3% in 2003, increasing in absolute dollars from $5.6 million in 2003 to $6.6 million in 2004. The increase in R&D was primarily the result of higher R&D labor and material costs for product development in the semiconductor equipment business.

***Selling, General And Administrative Expense***

SG&A expense as a percentage of net sales decreased to 15.3% in 2004, from 18.8% in 2003, increasing in absolute dollars from $6.0 million in 2003 to $7.2 million in 2004. The increase in SG&A expense was primarily related to increased business volume and a provision for bad debt expense of $0.4 million.

***Interest Income***

Interest income was $0.3 million and $0.4 million in 2004 and 2003, respectively. The decrease in interest income was due to lower interest rates.

***Income Taxes***

The provision for income taxes expressed as a percentage of pre-tax income was 6.7% in 2004 and 21.1% in 2003. The provision for income taxes is based on the estimated effective tax rate for the entire year and in 2004 is lower than the U.S. federal statutory rate primarily due to the significant deferred tax valuation allowance recorded at December 31, 2003. The estimated effective tax rate is subject to adjustment in subsequent quarterly periods as the Company's estimates of pretax income or loss for the year are increased or decreased. In accordance with FASB Statement No. 109, *Accounting for Income Taxes*, net deferred tax assets are reduced by a valuation allowance, if based on all the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. A valuation allowance of $11,704,000 had been provided on deferred tax assets at December 31, 2003, primarily due to uncertainties of realizing net deferred tax assets in excess of income expected to be generated from future income and certain tax planning strategies. The Company determined that the valuation allowance was required based upon its recent losses, and the likelihood of generating sufficient additional taxable income in future years to obtain benefit from the reversal of temporary differences and net operating loss and tax credit carryforwards.

At June 30, 2004, the Company reassessed the appropriateness of the valuation allowance. We concluded that, despite the improvement in operating results that were significantly better than forecast, it would be premature to reverse the valuation allowance that existed at December 31, 2003 other than to the extent necessary to reduce current tax expense generated by 2004 income. The Company will continue to assess the appropriateness of the valuation allowance in the third and fourth quarters of 2004. The Company may adjust the allowance if, based on a careful assessment of business prospects and estimates of future income, the Company concludes that all or a portion of the allowance is no longer required. A reduction in the allowance would result in a corresponding credit to income tax expense.

The IRS is currently conducting a routine examination of Cohu's consolidated tax returns for the period 2000 through 2002. The Company expects the IRS examination to be completed in 2004. If the examination is concluded in 2004, any adjustments that result from the IRS examination will be reflected in the Company's 2004 results of operations. The Company believes that such adjustments, if any, are adequately provided for in the consolidated financial statements. A favorable outcome from the examination would result in a credit to income tax expense in the quarter the examination is concluded.

The Company has derived significant tax benefits from the research credit under Section 41 of the Internal Revenue Code and the Extraterritorial Income Exclusion (ETI). The research credit expired on June 30, 2004 and the ETI is likely to be repealed due to pressure from the World Trade Organization. If the ETI is repealed and replacement legislation is not enacted and/or the research credit is not extended beyond June 30, 2004, the Company's future tax rate will be adversely impacted.

***Other Items***

On April 10, 2003, Cohu announced that its Delta Design subsidiary was relocating its Littleton, Massachusetts operation to its headquarters facility in Poway, California. The consolidation was substantially complete by March 31, 2004. Cohu incurred charges of approximately $0.3 million in the second quarter of 2003 and $0.2 million in the first quarter of 2004, for severance and other related exit costs.

In April 2003, Cohu's Delta Design subsidiary completed the relocation of its Columbus, Ohio operations to its headquarters facility in Poway, California. The consolidation reduced costs without impacting the revenue generating activities of Delta Design. The Company recorded charges to operations in the quarter ended March 31, 2003, totaling $0.6 million for severance and one-time termination benefits and $0.1 million for contract termination costs primarily related to the leased facility. Exit-related costs charged to operations subsequent to the quarter ended March 31, 2003 were not significant.

On April 25, 2003, Cohu sold twelve acres of land in Poway, California held for future development for $8.8 million in net cash proceeds resulting in a pretax gain of approximately $7.9 million. Additionally, in the quarter ended June 30, 2003, the Company wrote off an equity investment in a privately-held company and recorded a $2.5 million charge to operating results as the investment was deemed impaired and such impairment was considered other than temporary, pursuant to APB No. 18.

In 2003, Cohu through its Broadcast Microwave Services (BMS) subsidiary was awarded an $8.5 million contract from the United Arab Emirates (UAE) Armed Services to provide microwave communications equipment for a command center and infrastructure system for border security. The contract, which utilizes our most advanced microwave communications technology that has not previously been installed in an application of this size and complexity, requires that 40% of the total contract price be paid after the system has been fully accepted by the customer. As a result of these factors and the inability to make reasonably dependable estimates of progress toward completion and acceptance, Cohu will recognize all revenue and related costs under this contract in the period the system is accepted by the customer. Through June 30, 2004, we had shipped inventory with a sales value of $4.8

million and deferred costs of approximately $3.6 million resulting in deferred profit of approximately $1.2 million under the contract. In addition, at June 30, 2004 we had inventory to be delivered under the contract of approximately $1.8 million and accounts receivable of approximately $1.5 million. Cohu has also provided the customer with a standby letter of credit totaling approximately $2.5 million at June 30, 2004, that may be drawn upon if BMS does not fulfill the terms of the contract. We currently expect equipment and system installation to be completed in 2004. If BMS is unable to successfully complete the installation of the equipment and obtain customer acceptance of the system, the related inventory and receivables may need to be written off, the customer might seek a refund of the $3.2 million in payments made to BMS under the contract and our business, results of operations and financial condition would be materially impacted.

As a result of the factors set forth above, our net income was $6.9 million in 2004, compared to net income of $4.1 million in 2003.

***Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003***

Our net sales increased 32% to $83.3 million in 2004, compared to net sales of $63.2 million in 2003. Sales of semiconductor test handling equipment in 2004 increased 38% from the 2003 period and accounted for 82% of consolidated net sales in 2004, versus 78% in 2003. Sales of television cameras and other equipment accounted for 12% of net sales in 2004 and increased 18% when compared to 2003, while the combined sales of metal detection and microwave equipment were comparable in the six month periods.

***Gross margin***

Gross margin as a percentage of net sales increased to 43.0% in 2004 from 33.8% in 2003, primarily as a result of higher margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins increased in 2004, primarily as a result of changes in product mix, reduced charges for excess and obsolete inventory and increased business volume. Cohu computes the majority of its excess and obsolete inventory reserve requirements using a one-year inventory usage forecast. During 2004 and 2003 we recorded net charges to cost of sales of approximately $2.2 million and $3.0 million, respectively, for excess and obsolete inventory.

In the six months ended June 30, 2004, our gross margin was favorably impacted by approximately $1.1 million, as a result of the sale of certain inventory that was written down in 2003.

***Research And Development Expense***

R&D expense as a percentage of net sales was 15.3% in 2004, compared to 19.8% in 2003, increasing in absolute dollars from $12.5 million in 2003 to $12.8 million in 2004. The increase in R&D was primarily the result of higher R&D labor and material costs for product development in the semiconductor equipment and television camera divisions, offset by a decrease in expenditures in the microwave communications business.

***Selling, General And Administrative Expense***

SG&A expense as a percentage of net sales decreased to 16.9% in 2004, from 18.9% in 2003, increasing in absolute dollars from $11.9 million in 2003 to $14.1 million in 2004. The increase in SG&A expense was primarily related to increased business volume.

***Interest Income***

Interest income was $1.0 million and $1.1 million in 2004 and 2003, respectively. The decrease in interest income was due to lower interest rates.

***Income Taxes***

The provision for income taxes expressed as a percentage of pre-tax income was 9.1% in 2004 and 20.4% in

2003. The provision for income taxes is based on the estimated effective tax rate for the entire year and in 2004 is lower than the U.S. federal statutory rate primarily due to the significant deferred tax valuation allowance recorded at December 31, 2003.

As a result of the factors set forth above, our net income was $9.0 million in 2004, compared to net income of $2.7 million in 2003.

## LIQUIDITY AND CAPITAL RESOURCES

Our net cash flows provided from operating activities in the first six months of 2004 totaled $1.0 million. The major components of cash flows provided by operating activities were net income of $9.0 million, offset by the net change in current assets and liabilities totaling $10.1 million, and depreciation and amortization of $2.0 million. Net cash used for investing activities included $7.9 million for the purchase of short-term investments, less sales and maturities, and purchases of property, plant and equipment and other assets of $1.4 million offset by a $9.0 million payment received on a note receivable. Cash used for financing activities included $1.7 million received from the issuance of stock upon the exercise of stock options offset by $2.1 million for the payment of dividends.

In June 2004, the Company renewed its $5.0 million line of credit, which provides working capital. Approximately $2.5 million of the line of credit has been allocated to outstanding standby letters of credit, and the Company had approximately $2.5 million available for borrowing on June 30, 2004. We expect that we will continue to make capital expenditures to support our business and we anticipate that present working capital and available borrowings under the line of credit will be sufficient to meet our operating requirements for at least the next twelve-months.

### *Off Balance Sheet Arrangements*

During the ordinary course of business, Cohu provides standby letters of credit instruments to certain parties as required. As of June 30, 2004, the maximum potential amount of future payments that Cohu could be required to make under these standby letters of credit was approximately $2.5 million. Cohu has not recorded any liability in connection with these arrangements beyond that required to appropriately account for the underlying transaction being guaranteed. Cohu does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these arrangements.

## TRENDS, RISKS AND UNCERTAINTIES

### ***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 and semiconductor equipment may also be subject to similar cycles and severe downturns, such as those experienced in 1996, 1998 and late 2000, continuing throughout 2001, 2002 and 2003. Reductions in capital equipment investment by semiconductor manufacturers and semiconductor test subcontractors will materially and adversely affect our business, financial position and results of operations. In addition, the volatile and unpredictable nature of semiconductor equipment demand has in the past and may in the future expose us to significant excess and obsolete and lower of cost or market inventory write-offs and reserve requirements. In the years ended December 31, 2003, 2002 and 2001, we recorded pretax inventory-related charges of approximately $4.6 million, $4.1 million and $15.9 million, respectively, primarily as a result of changes in customer forecasts.

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***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 the year ended December 31, 2003, two customers of the semiconductor equipment segment accounted for 57% (53% in 2002, and 44% in 2001) of our net sales. During the past five years, the percentage of Cohu's sales derived from each of these and other significant customers has varied greatly. Such variations are due to changes in the customer's business and their purchase of products from our competitors. It is common in the semiconductor test handler industry for customers to purchase equipment from more than one equipment supplier, increasing the risk that our competitive position with a specific customer may deteriorate. No assurance can be given that we will continue to maintain our competitive position with these or other significant customers. Furthermore, we expect the percentage of our revenues derived from significant customers will vary greatly in future periods. 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 semiconductor test to test subcontractors that are not our customers or other factors, would adversely impact our business, 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.

***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. The test handler industry, while relatively small in terms of worldwide market size compared to other segments of the semiconductor equipment industry, has an inordinately large number of participants resulting in intense competitive pricing pressures. Future competition may include companies that do not currently supply test handlers. 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 only 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 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 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. We believe that competitive conditions in the semiconductor test handler market have intensified over the last several years. This intense competition has adversely impacted our product average selling prices and gross margins. If we are unable to reduce the cost of our existing products and successfully introduce new lower cost products we expect these competitive conditions to negatively impact our gross margin and operating results for the foreseeable future.

***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, including our recently introduced Delta ***EDGE***™ handler, may adversely impact sales or margins of existing products. In addition, the introduction of new products by Cohu or by our competitors, the concentration of our revenues in a limited number of large customers, the migration to new semiconductor test handling methodologies and the custom nature of our inventory parts increases the risk that our established products and related inventory may become obsolete, resulting in significant excess and obsolete inventory exposure. This increased exposure resulted in significant charges to operations during each of the years in the three-year period ended December 31, 2003. Future inventory write-offs and increased inventory 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 acceptance and 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) assembly, test and final 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 IC 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 fail to 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 material 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 continue to experience difficulties in manufacturing and volume production of our new test handlers including our latest product offering, the Delta ***EDGE***™. 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.

***We are exposed to risks associated with acquisitions and investments.***

Cohu has made, and may in the future make, acquisitions of, or significant investments in, businesses with complementary products, services and/or technologies. In July 2001, Cohu acquired the assets of the Automated Systems business from Schlumberger Technologies, Inc. for $14.2 million in cash. A significant portion of the purchase price was allocated to goodwill and other intangible assets. In the fourth quarter of 2002, Cohu invested $2.5 million in KryoTech, Inc. preferred stock, that was written off in June, 2003, and $1.7 million in intangible assets for certain technology.

Acquisitions and investments involve numerous risks, including, but not limited to: 1) difficulties and increased costs in connection with integration of the personnel, operations, technologies and products of acquired businesses; 2) diversion of management's attention from other operational matters; 3) the potential loss of key employees of acquired businesses; 4) lack of synergy, or the inability to realize expected synergies, resulting from the acquisition; 5) failure to commercialize purchased technology; and 6) the impairment of acquired intangible assets and goodwill that could result in significant charges to operating results in future periods. In addition, such acquisitions or investments may result in immediate charges to operating results. Mergers, acquisitions and investments are inherently risky and the inability to effectively manage these risks could materially and adversely affect Cohu's business, financial condition and results of operations.

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***We have taken remedial measures to address previous slowdowns in the semiconductor equipment industry that may affect our ability to be competitive.***

In the past, we have taken remedial measures to address the slowdown in the market for our products. In particular, we reduced our workforce, including reductions in September and October 2002 and January and March 2003, delayed salary increases, reduced senior executives' pay, implemented furloughs, announced facility consolidations and reduced expense budgets. In January and April, 2003, we announced the consolidation of Delta Design's Columbus, Ohio and Littleton, Massachusetts operations into our Poway, California facility. Each of these measures could have long-term effects on our business by reducing our pool of technical talent, decreasing or slowing improvements in our products and making it more difficult for us to respond to customers needs.

***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 of future business activity is limited. 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, failure to satisfy customer acceptance requirements and the inability to recognize revenue under accounting requirements, our backlog at any point in time may not be representative of 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 could have a material adverse effect on our business, financial condition and results of operations. In addition, backlog at June 30, 2004, may not be a reliable indicator of revenues in future periods due to delayed delivery dates or customer requested changes to delivery schedules, order cancellations and delays in recognizing revenue due to accounting requirements.

***The cyclical nature of the semiconductor equipment industry places enormous demands on our employees, 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 continually 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. In 2001, we reduced our workforce approximately 30% as a result of a downturn in the semiconductor equipment industry. Workforce reductions continued in the third and fourth quarter of 2002 and January and March, 2003. In January and April, 2003, we announced the consolidation of Delta Design's Columbus, Ohio and Littleton, Massachusetts operations into our Poway, California facility. In 2004 we have increased our workforce, particularly in manufacturing, to meet increased demand. Such radical changes in workforce levels place enormous demands on our employees, operations and infrastructure since newly hired personnel rarely possess the expertise and level of experience of current employees. Additionally, these transitions divert management time and attention from other activities and adversely impact employee morale. We have in the past and may in the future experience difficulties, particularly in manufacturing, in training and recruiting the large number of additions to our workforce. 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. 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 gravity-feed test handler sales to DRAM customers.***

Sales of gravity-feed 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. Pick-and-place IC handlers used in DRAM applications account for a significant portion of the worldwide IC handler market and Cohu's market share in the DRAM segment is negligible. Cohu's share of the gravity-feed handler market for the last five years has also been negligible, and with the announced closure of our Littleton, Massachusetts operations, we no longer plan to sell gravity feed test handlers. Such handlers are used in numerous non DRAM applications and continue to represent a significant portion of the worldwide test handler market. Because we do not participate in the DRAM and/or gravity-feed market segments, our total available sales market is limited and as a result our business and results of operations may be negatively impacted.

***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. In the fourth quarter of 2003, we established a small manufacturing operation near Manila in the Philippines. 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, terrorist threats and related security matters 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. On occasion, 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.

***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 cease to 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 and political instability and we compete against a number of Asian test handling equipment suppliers.***

During the year ended December 31, 2003, 61% 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. Political or economic instability, 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, 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.

***The loss of key personnel could adversely impact our business.***

Certain key personnel are critical to our business. Our future operating results depend substantially upon the continued service of our key personnel, many of whom are not bound by employment or non-competition agreements. Our future operating results also depend in significant part upon our ability to attract and retain qualified management, manufacturing, technical, engineering, marketing, sales and support personnel. Competition for qualified personnel, particularly those with technical skills, is intense, and we cannot ensure success in attracting or retaining qualified personnel. There may be only a limited number of persons with the requisite skills and relevant industry experience to serve in these positions and it may be increasingly difficult for us to hire personnel over time. Our business, financial condition and results of operations could be materially adversely affected by the loss of any of our key employees, by the failure of any key employee to perform in his or her current position, or by our inability to attract and retain skilled employees.

***Our non-semiconductor equipment businesses have experienced little or no growth and are not profitable.***

We develop, manufacture and sell products used in closed circuit television, metal detection and microwave communications 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 significant decline in the operating results of these businesses over the last several years with increasing losses and the future prospects for certain of these businesses remain uncertain. We may not be able to continue to compete successfully in these businesses.

***New accounting rules may impact our future operating results.***

In March 2004, the FASB issued an exposure document entitled *Share-Based Payment — an amendment of Statements No. 123 and 95 (Proposed Statement of Financial Accounting Standards)*. The proposed Statement would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25 and generally require instead that such transactions be accounted for using a fair-value-based method. This accounting, if approved, will result in significant compensation expense charges to our future results of operations. The proposed Statement, if adopted, would be applied to public entities prospectively for fiscal years beginning after December 15, 2004, as if all share-based compensation awards granted, modified, or settled after December 15, 1994, had been accounted for using the fair-value method of accounting.

***We have experienced significant volatility in our stock price.***

A variety of factors may cause the price of our stock to be volatile. In recent years, the stock market in general, and the market for shares of high-technology companies in particular, including ours, have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. During the last three years the price of our common stock has ranged from $30.65 to $9.78. The price of our stock may be more volatile than other companies due to, among other factors, the unpredictable and cyclical nature of the semiconductor industry, our significant customer concentration, intense competition in the IC test handler industry, our limited backlog making earnings predictability difficult and our relatively low daily stock trading volume. The market price of our common stock is likely to continue to fluctuate significantly in the future, including fluctuations related and unrelated to our performance.

**COHU, INC.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**
**AND RESULTS OF OPERATIONS**
**June 30, 2004**

***Recently enacted and proposed changes in securities laws and regulations are likely to increase our costs.***

The Sarbanes-Oxley Act of 2002 ("SOX") that became law in July 2002 requires changes in some of our corporate governance and securities disclosure or compliance practices. The SEC has promulgated new rules on a variety of subjects and Nasdaq has issued revisions to its requirements for companies that are Nasdaq-listed. In June 2003 the SEC adopted certain rules as directed by Section 404 of SOX. These rules require that publicly held companies, including Cohu, include in their annual report to shareholders a report of management on the company's internal control over financial reporting. Our independent auditors will be required to attest to management's assessment of internal controls over financial reporting. Cohu will be required to comply with this new requirement in its annual report for the year ending December 31, 2004. If our financial reporting controls are not deemed effective, there will be an adverse impact on our reputation that could negatively impact our stock price.

We also expect these developments to increase our legal and accounting compliance costs, and to make some activities more difficult, such as stockholder approval of new stock option plans. We also expect these developments to make it more difficult and expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These developments could make it more difficult for us to attract and retain qualified members of our board of directors, or qualified executive officers. We are presently evaluating and monitoring regulatory developments and cannot estimate the timing or magnitude of additional costs we may incur as a result.

***The outbreak of SARS and bird flu in Asia and geopolitical instability caused by terrorist attacks and threats may adversely impact our operations and sales.***

Our Asian sales and service headquarters is located in Singapore and the majority of our sales are made to destinations in Asia. In addition, we recently organized a business in the Philippines to fabricate certain component parts used in our semiconductor test handlers. Our operations and sales in this region may be adversely impacted by Severe Acute Respiratory Syndrome, or SARS, or the outbreak of Asian bird flu, if our business or the businesses of our customers are disrupted by travel restrictions or the illness and quarantine of employees. Furthermore, Cohu's Broadcast Microwave Services subsidiary is currently involved in a significant contract with the United Arab Emirates. Continued terrorist attacks or threats in this region may cause geopolitical instability that may have an adverse effect on our ability to successfully satisfy our delivery and installation requirements under the agreement, which would materially impact our business, results of operations and financial condition.

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 2003 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.

**Item 3. Quantitative and qualitative disclosures about market risk.**

**Interest rate risk.**

At June 30, 2004 our investment portfolio includes fixed-income securities with a fair value of approximately $108.3 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 ten percent change in interest rates (e.g. 3.00% to 3.30%) 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 we have limited foreign currency exchange rate risk. Monetary assets and liabilities of Cohu's foreign operations are not significant. The effect of an immediate ten percent change in foreign exchange rates would not have a material impact on our financial condition or results of operations.

**Item 4. Controls and procedures.**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

During the last fiscal quarter, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## Part II OTHER INFORMATION

### Item 4. Submission of Matters to a Vote of Security Holders

The Cohu Annual Meeting of Stockholders was held on May 11, 2004. At the meeting the following directors were elected:

| | Number of Common Shares Voted | |
|---|---|---|
| **Director** | **For** | **Withhold Authority** |
| James W. Barnes | 15,734,051 | 3,790,531 |
| James A. Donahue | 15,746,416 | 3,778,166 |

The remaining directors continuing in office until 2005 or 2006 are Harry L. Casari, Robert L. Ciardella, Harold Harrigian and Charles A. Schwan.

In addition, the stockholders approved the following proposals:

| | Number of Common Shares Voted | | | |
|---|---|---|---|---|
| **Proposals** | **For** | **Against** | **Abstain** | **Broker Non-Votes** |
| To approve an amendment to the Cohu 1998 Stock Option Plan, increasing the shares of stock subject to the Plan by 1,000,000. | 8,452,917 | 6,453,227 | 258,544 | 4,359,894 |
| To ratify the appointment of Ernst & Young LLP as Cohu's independent auditors for 2004. | 18,820,601 | 351,111 | 352,870 | 0 |

**Item 6. Exhibits and Reports on Form 8-K.**

(a) Exhibits:

| | | |
|---|---|---|
| 3.1 | - | Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference to Exhibit 3.1(a) from the Cohu, Inc. Form 10-Q for the quarterly period ended June 30, 1999 |
| 3.1(a) | - | Certificate of Amendment of Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference from the Cohu, Inc. Form S-8 filed June 30, 2000, Exhibit 4.1(a) |
| 3.2 | - | Amended and Restated Bylaws of Cohu, Inc. incorporated herein by reference to Exhibit 3.2 from the Cohu, Inc. Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 1996 |
| 4.1 | - | Rights Agreement dated November 15, 1996, between Cohu, Inc. and ChaseMellon Shareholder Services, L.L.C., incorporated herein by reference from the Cohu, Inc. Report on Form 8-K filed December 12, 1996, Exhibit 4.1 |
| 10.1 | - | Loan Agreement dated June 28, 2004 between Cohu, Inc. and Bank of America, N.A. |
| 10.2 | - | Cohu, Inc. 1998 Stock Option Plan (as amended), incorporated herein by reference from the Cohu Proxy Statement for the 2004 Annual Meeting of Stockholders |
| 31.1 | - | Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 |
| 31.2 | - | Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 |
| 32.1 | - | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | - | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

(b) Reports on Form 8-K: The Company filed a report on Form 8-K with the Securities and Exchange Commission on April 22, 2004. The Form 8-K included the Cohu, Inc. First Quarter 2004 Earnings Release, dated April 21, 2004.

**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: July 26, 2004 | /s/ James A. Donahue |
| | James A. Donahue<br>President & Chief Executive Officer |
| Date: July 26, 2004 | /s/ John H. Allen |
| | John H. Allen<br>Vice President, Finance & Chief Financial Officer |

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## EXHIBIT INDEX

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|---|---|
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Exhibit 10.1

[BANK OF AMERICA LOGO]

# LOAN AGREEMENT

This Agreement dated as of June 28, 2004, is between Bank of America, N.A. (the "Bank") and Cohu, Inc. (the "Borrower").

## 1. FACILITY NO. 1: LINE OF CREDIT AMOUNT AND TERMS

### 1.1 Line of Credit Amount.

(a) During the availability period described below, the Bank will provide a line of credit to the Borrower. The amount of the line of credit (the "Facility No. 1 Commitment") is Five Million and 00/100 Dollars ($5,000,000.00).

(b) This is a revolving line of credit. During the availability period, the Borrower may repay principal amounts and reborrow them.

(c) The Borrower agrees not to permit the principal balance outstanding to exceed the Facility No. 1 Commitment. If the Borrower exceeds this limit, the Borrower will immediately pay the excess to the Bank upon the Bank's demand.

1.2 Availability Period. The line of credit is available between the date of this Agreement and July 1, 2005, or such earlier date as the availability may terminate as provided in this Agreement (the "Facility No. 1 Expiration Date").

### 1.3 Repayment Terms.

(a) The Borrower will pay interest on July 1, 2004, and then on the same day of each month thereafter until payment in full of any principal outstanding under this facility.

(b) The Borrower will repay in full any principal, interest or other charges outstanding under this facility no later than the Facility No. 1 Expiration Date.

### 1.4 Interest Rate.

(a) The interest rate is a rate per year equal to the Bank's Prime Rate.

(b) The Prime Rate is the rate of interest publicly announced from time to time by the Bank as its Prime Rate. The Prime Rate is set by the Bank based on various factors, including the Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. The Bank may price loans to its customers at, above, or below the Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Bank's Prime Rate.

### 1.5 Letters of Credit.

(a) During the availability period, at the request of the Borrower, the Bank will issue:

   (i) commercial letters of credit with a maximum maturity of one hundred eighty (180) days but not to extend more than one hundred eighty (180) days beyond the Facility No. 1 Expiration Date. Each commercial letter of credit will require drafts payable at sight.

   (ii) standby letters of credit with a maximum maturity of three hundred sixty-five (365) days but not to extend more than three hundred sixty-five (365) days beyond the Facility No. 1 Expiration Date.

(b) In calculating the principal amount outstanding under the Facility No. 1 Commitment, the calculation shall include the amount of any letters of credit outstanding, including amounts drawn on any letters of credit and not yet reimbursed.

(c) The following letters of credit are outstanding from the Bank for the account of the Borrower:

| Letter of Credit Number | Amount |
|---|---|
| 3055074 | $1,690,055.80 |
| 3055075 | $ 845,027.90 |

As of the date of this Agreement, these letters of credit shall be deemed to be outstanding under this Agreement, and shall be subject to all the terms and conditions stated in this Agreement.

(e) The Borrower agrees:

(i) Any sum drawn under a letter of credit may, at the option of the Bank, be added to the principal amount outstanding under this Agreement. The amount will bear interest and be due as described elsewhere in this Agreement.

(ii) If there is a default under this Agreement, to immediately prepay and make the Bank whole for any outstanding letters of credit.

(iii) The issuance of any letter of credit and any amendment to a letter of credit is subject to the Bank's written approval and must be in form and content satisfactory to the Bank and in favor of a beneficiary acceptable to the Bank.

(iv) To sign the Bank's form Application and Agreement for Commercial Letter of Credit or Application and Agreement for Standby Letter of Credit, as applicable.

(v) To pay any issuance and/or other fees that the Bank notifies the Borrower will be charged for issuing and processing letters of credit for the Borrower.

(vi) To allow the Bank to automatically charge its checking account for applicable fees, discounts, and other charges.

2. FEES AND EXPENSES

2.1 Fees.

(a) Unused Commitment Fee. The Borrower agrees to pay a fee on any difference between the Facility No. 1 Commitment and the amount of credit it actually uses, determined by the average of the daily amount of credit outstanding during the specified period. The fee will be calculated at 0.125% per year. The calculation of credit outstanding shall not include the undrawn amount of letters of credit.

This fee is due on June 30, 2004, payable on the 10th day of the following month, and on the same day of each following quarter until the expiration of the availability period.

2.2 Expenses. The Borrower agrees to immediately repay the Bank for expenses that include, but are not limited to, filing, recording and search fees, appraisal fees, title report fees, and documentation fees.

2.3 Reimbursement Costs.

(a) The Borrower agrees to reimburse the Bank for any expenses it incurs in the preparation of this Agreement and any agreement or instrument required by this Agreement. Expenses include, but are not limited to, reasonable attorneys' fees, including any allocated costs of the Bank's in-house counsel to the extent permitted by applicable law.

3. DISBURSEMENTS, PAYMENTS AND COSTS

3.1 Disbursements and Payments.

(a) Each payment by the Borrower will be made in U.S. Dollars and immediately available funds by direct debit to a deposit account as specified below or, for payments not required to be made by direct debit, by mail to the address shown on the Borrower's statement or at one of the Bank's banking centers in the United States.

(b) Each disbursement by the Bank and each payment by the Borrower will be evidenced by records kept by the Bank. In addition, the Bank may, at its discretion, require the Borrower to sign one or more promissory notes.

3.2 Telephone and Telefax Authorization.

(a) The Bank may honor telephone or telefax instructions for advances or repayments and telefax requests for the issuance of letters of credit given, or purported to be given, by any one of the individuals authorized to sign loan agreements on behalf of the Borrower, or any other individual designated by any one of such authorized signers.

(b) Advances will be deposited in and repayments will be withdrawn from account number 14505-50312 owned by the Borrower or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower.

(c) The Borrower will indemnify and hold the Bank harmless from all liability, loss, and costs in connection with any act resulting from telephone or telefax instructions the Bank reasonably believes are made by any individual authorized by the Borrower to give such instructions. This paragraph will survive this Agreement's termination, and will benefit the Bank and its officers, employees, and agents.

3.3 Direct Debit (Pre-Billing).

(a) The Borrower agrees that the Bank will debit deposit account number 14505-50312 owned by the Borrower or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower (the "Designated Account") on the date each payment of principal and interest and any fees from the Borrower becomes due (the "Due Date").

(b) Prior to each Due Date, the Bank will mail to the Borrower a statement of the amounts that will be due on that Due Date (the "Billed Amount"). The bill will be mailed a specified number of calendar days prior to the Due Date, which number of days will be mutually agreed from time to time by the Bank and the Borrower. The calculations in the bill will be made on the assumption that no new extensions of credit or payments will be made between the date of the billing statement and the Due Date, and that there will be no changes in the applicable interest rate.

(c) The Bank will debit the Designated Account for the Billed Amount, regardless of the actual amount due on that date (the "Accrued Amount"). If the Billed Amount debited to the Designated Account differs from the Accrued Amount, the discrepancy will be treated as follows:

(i) If the Billed Amount is less than the Accrued Amount, the Billed Amount for the following Due Date will be increased by the amount of the discrepancy. The Borrower will not be in default by reason of any such discrepancy.

(ii) If the Billed Amount is more than the Accrued Amount, the Billed Amount for the following Due Date will be decreased by the amount of the discrepancy.

Regardless of any such discrepancy, interest will continue to accrue based on the actual amount of principal outstanding without compounding. The Bank will not pay the Borrower interest on any overpayment.

(d) The Borrower will maintain sufficient funds in the Designated Account to cover each debit. If there are insufficient funds in the Designated Account on the date the Bank enters any debit authorized by this Agreement, the Bank may reverse the debit.

(e) The Borrower may terminate this direct debit arrangement at any time by sending written notice to the Bank at the address specified at the end of this Agreement. If the Borrower terminates this arrangement, then the principal amount outstanding under this Agreement will at the option of the Bank bear interest at a rate per annum which is 0.5 percentage point(s) higher than the rate of interest otherwise provided under this Agreement.

3.4 Banking Days. Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday, Sunday or other day on which commercial banks are authorized to close, or are in fact closed, in the state where the Bank's lending office is located, and, if such day relates to amounts bearing interest at an offshore rate (if any), means any such day on which dealings in dollar deposits are conducted among banks in the offshore dollar interbank market. All payments and disbursements which would be due on a day which is not a banking day will be due on the next banking day. All payments received on a day which is not a banking day will be applied to the credit on the next banking day.

3.5 Interest Calculation. Except as otherwise stated in this Agreement, all interest and fees, if any, will be computed on the basis of a 360-day year and the actual number of days elapsed. This results in more interest or a higher fee than if a 365-day year is used. Installments of principal which are not paid when due under this Agreement shall continue to bear interest until paid.

3.6 Default Rate. Upon the occurrence of any default under this Agreement, all amounts outstanding under this Agreement, including any interest, fees, or costs which are not paid when due, will at the option of the Bank bear interest at a rate which is 2.0 percentage point(s) higher than the rate of interest otherwise provided under this Agreement. This may result in compounding of interest. This will not constitute a waiver of any default.

3.7 Interest Compounding. At the Bank's sole option in each instance, any interest, fees, or costs which are not paid when due under this Agreement shall bear interest from the due date at the Bank's Prime Rate plus 1.0 percentage point(s). This may result in compounding of interest.

4. CONDITIONS

Before the Bank is required to extend any credit to the Borrower under this Agreement, it must receive any documents and other items it may reasonably require, in form and content acceptable to the Bank, including any items specifically listed below.

4.1 Authorizations. If the Borrower or any guarantor is anything other than a natural person, evidence that the execution, delivery and performance by the Borrower and/or such guarantor of this Agreement and any instrument or agreement required under this Agreement have been duly authorized.

4.2 Governing Documents. If required by the Bank, a copy of the Borrower's organizational documents.

4.3 Payment of Fees. Payment of all fees and other amounts due and owing to the Bank, including without limitation payment of all accrued and unpaid expenses incurred by the Bank as required by the paragraph entitled "Reimbursement Costs."

4.4 Good Standing. Certificates of good standing for the Borrower from its state of formation and from any other state in which the Borrower is required to qualify to conduct its business.

5. REPRESENTATIONS AND WARRANTIES

When the Borrower signs this Agreement, and until the Bank is repaid in full, the Borrower makes the following representations and warranties. Each request for an extension of credit constitutes a renewal of these representations and warranties as of the date of the request:

5.1 Formation. If the Borrower is anything other than a natural person, it is duly formed and existing under the laws of the state or other jurisdiction where organized.

5.2 Authorization. This Agreement, and any instrument or agreement required hereunder, are within the Borrower's powers, have been duly authorized, and do not conflict with any of its organizational papers.

5.3 Enforceable Agreement. This Agreement is a legal, valid and binding agreement of the Borrower, enforceable against the Borrower in accordance with its terms, and any instrument or agreement required hereunder, when executed and delivered, will be similarly legal, valid, binding and enforceable.

5.4 Good Standing. In each state in which the Borrower does business, it is properly licensed, in good standing, and, where required, in compliance with fictitious name statutes.

5.5 No Conflicts. This Agreement does not conflict with any law, agreement, or obligation by which the Borrower is bound.

5.6 Financial Information. All financial and other information that has been or will be supplied to the Bank is sufficiently complete to give the Bank accurate knowledge of the Borrower's (and any guarantor's) financial condition, including all material contingent liabilities. Since the date of the most recent financial statement provided to the Bank, there has been no material adverse change in the business condition (financial or otherwise), operations, properties or prospects of the Borrower (or any guarantor). If the Borrower is comprised of the trustees of a trust, the foregoing representations shall also pertain to the trustor(s) of the trust.

5.7 Lawsuits. There is no lawsuit, tax claim or other dispute pending or threatened against the Borrower which, if lost, would impair the Borrower's financial condition or ability to repay the loan, except as have been disclosed in writing to the Bank.

5.8 Permits, Franchises. The Borrower possesses all permits, memberships, franchises, contracts and licenses required and all trademark rights, trade name rights, patent rights, copyrights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged.

5.9 Other Obligations. The Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation, except as have been disclosed in writing to the Bank.

5.10 Tax Matters. The Borrower has no knowledge of any pending assessments or adjustments of its income tax for any year and all taxes due have been paid, except as have been disclosed in writing to the Bank.

5.11 No Event of Default. There is no event which is, or with notice or lapse of time or both would be, a default under this Agreement.

5.12 Insurance. The Borrower has obtained, and maintained in effect, the insurance coverage required in the "Covenants" section of this Agreement.

6. COVENANTS

The Borrower agrees, so long as credit is available under this Agreement and until the Bank is repaid in full:

6.1 Use of Proceeds.

(a) To use the proceeds of Facility No. 1 only for working capital.

6.2 Financial Information. To provide the following financial information and statements in form and content acceptable to the Bank, and such additional information as requested by the Bank from time to time:

(a) Within ninety (90) days of the fiscal year end, the annual financial statements of the Borrower. These financial statements must be audited (with an opinion satisfactory to the Bank) by a Certified Public Accountant acceptable to the Bank. The statements shall be prepared on a consolidated basis.

(b) Within forty-five (45) days of the period's end (including the last period in each fiscal year), quarterly financial statements of the Borrower, certified and dated by an authorized financial officer. These financial statements may be company-prepared. The statements shall be prepared on a consolidated basis.

(c) Copies of the Form 10-K Annual Report and Form 10-Q Quarterly Report for the Borrower concurrent with the date of filing with the Securities and Exchange Commission.

6.3 Tangible Net Worth. To maintain on a consolidated basis Tangible Net Worth equal to at least One Hundred Sixty Million Dollars ($160,000,000).

"Tangible Net Worth" means the value of total assets (including leaseholds and leasehold improvements and reserves against assets but excluding goodwill, patents, trademarks, trade names, organization expense, unamortized debt discount and expense, capitalized or deferred research and development costs, deferred marketing expenses, and other like intangibles, and monies due from affiliates, officers, directors, employees, shareholders, members or managers) less

total liabilities, including but not limited to accrued and deferred income taxes, but excluding the non-current portion of Subordinated Liabilities.

"Subordinated Liabilities" means liabilities subordinated to the Borrower's obligations to the Bank in a manner acceptable to the Bank in its sole discretion.

6.4 Unencumbered Liquid Assets. To hold on a consolidated basis Unencumbered Liquid Assets having an aggregate market value of not less than Fifty Million Dollars ($50,000,0000).

For the purposes of this Agreement, "Unencumbered Liquid Assets" shall mean the following assets owned by the Borrower (excluding assets of any retirement plan) which (i) are not the subject of any lien, pledge, security interest or other arrangement with any creditor to have its claim satisfied out of the assets (or proceeds thereof) prior to the general creditors of the Borrower, and (ii) may be converted to cash within five (5) days: (a) Cash or cash equivalents held in the United States; (b) United States Treasury or governmental agency obligations which constitute full faith and credit of the United States of America; (c) Commercial paper rated P-1 or A1 by Moody's or S&P, respectively; (d) Medium and long-term securities rated investment grade by one of the rating agencies described in (c) above; (e) Eligible Stocks ; (f) Mutual funds quoted in The Wall Street Journal which invest primarily in the assets described in (a) - (e) above. For purposes of this Agreement, "Eligible Stocks" means any common or preferred stock which (i) is not subject to statutory or contractual restrictions on sales, (ii) is traded on a U.S. national stock exchange or included in the National Market tier of NASDAQ and (iii) has, as of the close of trading on the applicable exchange (excluding after hours trading), a per share price of at least $15.

6.5 Limitation On Losses. Not to incur on a consolidated basis a net loss before taxes and extraordinary items in excess of Seven Million Five Hundred Thousand Dollars ($7,500,000) in any annual accounting period.

6.6 Capital Expenditures. Not to spend or incur obligations (including the total amount of any capital leases) to acquire fixed assets for more than Seven Million Five Hundred Thousand Dollars ($7,500,000) in any single fiscal year.

6.7 Other Debts. Not to have outstanding or incur any direct or contingent liabilities or lease obligations (other than those to the Bank), or become liable for the liabilities of others, without the Bank's written consent. This does not prohibit:

(a) Acquiring goods, supplies, or merchandise on normal trade credit.

(b) Endorsing negotiable instruments received in the usual course of business.

(c) Obtaining surety bonds in the usual course of business.

(d) Liabilities, lines of credit and leases in existence on the date of this Agreement disclosed in writing to the Bank.

(e) Additional debts and lease obligations for business purposes which do not exceed a total principal amount of One Million Dollars ($1,000,000) outstanding at any one time.

6.8 Other Liens. Not to create, assume, or allow any security interest or lien (including judicial liens) on property the Borrower now or later owns, except:

(a) Liens and security interests in favor of the Bank.

(b) Liens for taxes not yet due.

(c) Liens outstanding on the date of this Agreement disclosed in writing to the Bank.

(d) Additional purchase money security interests in assets acquired after the date of this Agreement, if the total principal amount of debts secured by such liens does not exceed One Million Dollars ($1,000,000) at any one time.

6.9 Maintenance of Assets.

(a) Not to sell, assign, lease, transfer or otherwise dispose of any part of the Borrower's business or the Borrower's assets except in the ordinary course of the Borrower's business.

(b) Not to sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.

(c) Not to enter into any sale and leaseback agreement covering any of its fixed assets.

(d) To maintain and preserve all rights, privileges, and franchises the Borrower now has.

(e) To make any repairs, renewals, or replacements to keep the Borrower's properties in good working condition.

6.10 Additional Negative Covenants. Not to, without the Bank's written consent:

(a) Enter into any consolidation, merger, or other combination, or become a partner in a partnership, a member of a joint venture, or a member of a limited liability company.

(b) Acquire or purchase a business or its assets for a consideration, including assumption of direct or contingent debt, in excess of Twenty Million Dollars ($20,000,000) in the aggregate.

(c) Engage in any business activities substantially different from the Borrower's present business.

(d) Liquidate or dissolve the Borrower's business.

(e) Voluntarily suspend the Borrower's business for more than five (5) days in any 30-day period.

6.11 Bank as Principal Depository. To maintain the Bank as its principal depository bank, including for the maintenance of business, cash management, operating and administrative deposit accounts.

6.12 Notices to Bank. To promptly notify the Bank in writing of:

(a) Any lawsuit over Five Million and 00/100 Dollars ($5,000,000.00) against the Borrower (or any guarantor or, if the Borrower is comprised of the trustees of a trust, any trustor).

(b) Any substantial dispute between any governmental authority and the Borrower (or any guarantor or, if the Borrower is comprised of the trustees of a trust, any trustor).

(c) Any event of default under this Agreement, or any event which, with notice or lapse of time or both, would constitute an event of default.

(d) Any material adverse change in the Borrower's (or any guarantor's, or, if the Borrower is comprised of the trustees of a trust, any trustor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.

(e) Any change in the Borrower's name, legal structure, place of business, or chief executive office if the Borrower has more than one place of business.

(f) Any actual contingent liabilities of the Borrower (or any guarantor or, if the Borrower is comprised of the trustees of a trust, any trustor), and any such contingent liabilities which are reasonably foreseeable, where such liabilities are in excess of One Million and 00/100 Dollars ($1,000,000.00) in the aggregate.

6.13 Insurance.

(a) General Business Insurance. To maintain insurance as is usual for the business it is in.

6.14 Compliance with Laws. To comply with the laws (including any fictitious or trade name statute), regulations, and orders of any government body with authority over the Borrower's business.

6.15 ERISA Plans. Promptly during each year, to pay and cause any subsidiaries to pay contributions adequate to meet at least the minimum funding standards under ERISA with respect to each and every Plan; file each annual report required to be filed pursuant to ERISA in connection with each Plan for each year; and notify the Bank within ten (10) days of the occurrence of any Reportable Event that might constitute grounds for termination of any capital Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer any Plan. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time. Capitalized terms in this paragraph shall have the meanings defined within ERISA.

6.16 Books and Records. To maintain adequate books and records.

6.17 Audits. To allow the Bank and its agents to inspect the Borrower's properties and examine, audit, and make copies of books and records at any reasonable time. If any of the Borrower's properties, books or records are in the possession of a third party, the Borrower authorizes that third party to permit the Bank or its agents to have access to perform inspections or audits and to respond to the Bank's requests for information concerning such properties, books and records.

6.18 Cooperation. To take any action reasonably requested by the Bank to carry out the intent of this Agreement.

7. HAZARDOUS SUBSTANCES

7.1 Indemnity Regarding Hazardous Substances. The Borrower will indemnify and hold harmless the Bank from any loss or liability the Bank incurs in connection with or as a result of this Agreement, which directly or indirectly arises out of the use, generation, manufacture, production, storage, release, threatened release, discharge, disposal or presence of a hazardous substance. This indemnity will apply whether the hazardous substance is on, under or about the Borrower's property or operations or property leased to the Borrower. The indemnity includes but is not limited to attorneys' fees (including the reasonable estimate of the allocated cost of in-house counsel and staff). The indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys and assigns.

7.2 Definition of Hazardous Substances. "Hazardous substances" means any substance, material or waste that is or becomes designated or regulated as "toxic," "hazardous," "pollutant," or "contaminant" or a similar designation or regulation under any federal, state or local law (whether under common law, statute, regulation or otherwise) or judicial or administrative interpretation of such, including without limitation petroleum or natural gas. This indemnity will survive repayment of the Borrower's obligations to the Bank.

8. DEFAULT AND REMEDIES

If any of the following events of default occurs, the Bank may do one or more of the following: declare the Borrower in default, stop making any additional credit available to the Borrower, and require the Borrower to repay its entire debt immediately and without prior notice. If an event which, with notice or the passage of time, will constitute an event of default has occurred and is continuing, the Bank has no obligation to make advances or extend additional credit under this Agreement. In addition, if any event of default occurs, the Bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with this Agreement, as well as all rights and remedies available at law or in equity. If an event of default occurs under the paragraph entitled "Bankruptcy," below, with respect to the Borrower, then the entire debt outstanding under this Agreement will automatically be due immediately.

8.1 Failure to Pay. The Borrower fails to make a payment under this Agreement when due.

8.2 Other Bank Agreements. Any default occurs under any other agreement the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has with the Bank or any affiliate of the Bank. For purposes of this Agreement, "Obligor" shall mean any guarantor, any party pledging collateral to the Bank, or, if the Borrower is comprised of the trustees of a trust, any trustor.

8.3 Cross-default. Any default occurs under any agreement in connection with any credit the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has obtained from anyone else or which the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has guaranteed.

8.4 False Information. The Borrower or any Obligor has given the Bank false or misleading information or representations.

8.5 Bankruptcy. The Borrower, any Obligor, or any general partner of the Borrower or of any Obligor files a bankruptcy petition, a bankruptcy petition is filed against any of the foregoing parties, or the Borrower, any Obligor, or any general partner of the Borrower or of any Obligor makes a general assignment for the benefit of creditors.

8.6 Receivers. A receiver or similar official is appointed for a substantial portion of the Borrower's or any Obligor's business, or the business is terminated, or, if any Obligor is anything other than a natural person, such Obligor is liquidated or dissolved.

8.7 Judgments. Any judgments or arbitration awards are entered against the Borrower or any Obligor, or the Borrower or any Obligor enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of Two Million and 00/100 Dollars ($2,000,000.00) or more in excess of any insurance coverage.

8.8 Material Adverse Change. A material adverse change occurs, or is reasonably likely to occur, in the Borrower's (or any Obligor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.

8.9 Government Action. Any government authority takes action that the Bank believes materially adversely affects the Borrower's or any Obligor's financial condition or ability to repay.

8.10 Default under Related Documents. Any default occurs under any guaranty, subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or any such document is no longer in effect, or any guarantor purports to revoke or disavow the guaranty.

8.11 ERISA Plans. Any one or more of the following events occurs with respect to a Plan of the Borrower subject to Title IV of ERISA, provided such event or events could reasonably be expected, in the judgment of the Bank, to subject the Borrower to any tax, penalty or liability (or any combination of the foregoing) which, in the aggregate, could have a material adverse effect on the financial condition of the Borrower:

(a) A reportable event shall occur under Section 4043(c) of ERISA with respect to a Plan.

(b) Any Plan termination (or commencement of proceedings to terminate a Plan) or the full or partial withdrawal from a Plan by the Borrower or any ERISA Affiliate.

8.12 Other Breach Under Agreement. A default occurs under any other term or condition of this Agreement not specifically referred to in this Article. This includes any failure or anticipated failure by the Borrower (or any other party named in the Covenants section) to comply with the financial covenants set forth in this Agreement, whether such failure is evidenced by financial statements delivered to the Bank or is otherwise known to the Borrower or the Bank.

9. ENFORCING THIS AGREEMENT; MISCELLANEOUS

9.1 GAAP. Except as otherwise stated in this Agreement, all financial information provided to the Bank and all financial covenants will be made under generally accepted accounting principles, consistently applied.

9.2 California Law. This Agreement is governed by California state law.

9.3 Successors and Assigns. This Agreement is binding on the Borrower's and the Bank's successors and assignees. The Borrower agrees that it may not assign this Agreement without the Bank's prior consent. The Bank may sell participations in or assign this loan, and may exchange financial information about the Borrower with actual or potential participants or assignees. If a participation is sold or the loan is assigned, the purchaser will have the right of set-off against the Borrower.

9.4 Arbitration and Waiver of Jury Trial

(a) This paragraph concerns the resolution of any controversies or claims between the parties, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to: (i) this agreement (including any renewals, extensions or modifications); or (ii) any document related to this agreement (collectively a "Claim"). For the purposes of this arbitration provision only, the term "parties" shall include any parent corporation, subsidiary or affiliate of the Bank involved in the servicing, management or administration of any obligation described or evidenced by this agreement.

(b) At the request of any party to this agreement, any Claim shall be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, U. S. Code) (the "Act"). The Act will apply even though this agreement provides that it is governed by the law of a specified state.

(c) Arbitration proceedings will be determined in accordance with the Act, the applicable rules and procedures for the arbitration of disputes of JAMS or any successor thereof ("JAMS"), and the terms of this paragraph. In the event of any inconsistency, the terms of this paragraph shall control.

(d) The arbitration shall be administered by JAMS and conducted, unless otherwise required by law, in any U. S. state where real or tangible personal property collateral for this credit is located or if there is no such collateral, in the state specified in the governing law section of this agreement. All Claims shall be determined by one arbitrator; however, if Claims exceed Five Million Dollars ($5,000,000), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed and enforced.

(e) The arbitrator(s) will have the authority to decide whether any Claim is barred by the statute of limitations and, if so, to dismiss the arbitration on that basis. For purposes of the application of the statute of limitations, the service on JAMS under applicable JAMS rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this agreement.

(f) This paragraph does not limit the right of any party to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or non-judicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.

(g) The procedure described above will not apply if the Claim, at the time of the proposed submission to arbitration, arises from or relates to an obligation to the Bank secured by real property. In this case, all of the parties to this agreement must consent to submission of the Claim to arbitration. If both parties do not consent to arbitration, the Claim will be resolved as follows: The parties will designate a referee (or a panel of referees) selected under the auspices of JAMS in the same manner as arbitrators are selected in JAMS administered proceedings. The designated referee(s) will be appointed by a court as provided in California Code of Civil Procedure Section 638 and the following related sections. The referee (or presiding referee of the panel) will be an active attorney or a retired judge. The award that results from the decision of the referee(s) will be entered as a judgment in the court that appointed the referee, in accordance with the provisions of California Code of Civil Procedure Sections 644 and 645.

(h) The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Claim to arbitration.

(i) By agreeing to binding arbitration, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of any Claim. Furthermore, without intending in any way to limit this agreement to arbitrate, to the extent any Claim is not arbitrated, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of such Claim. This provision is a material inducement for the parties entering into this agreement.

9.5 Severability; Waivers. If any part of this Agreement is not enforceable, the rest of the Agreement may be enforced. The Bank retains all rights, even if it makes a loan after default. If the Bank waives a default, it may enforce a later default. Any consent or waiver under this Agreement must be in writing.

9.6 Attorneys' Fees. The Borrower shall reimburse the Bank for any reasonable costs and attorneys' fees incurred by the Bank in connection with the enforcement or preservation of any rights or remedies under this Agreement and any other documents executed in connection with this Agreement, and in connection with any amendment, waiver, "workout" or restructuring under this Agreement. In the event of a lawsuit or arbitration proceeding, the prevailing party is entitled to recover costs and reasonable attorneys' fees incurred in connection with the lawsuit or arbitration proceeding, as determined by the court or arbitrator. In the event that any case is commenced by or against the Borrower under the Bankruptcy Code (Title 11, United States Code) or any similar or successor statute, the Bank is entitled to recover costs and reasonable attorneys' fees incurred by the Bank related to the preservation, protection, or enforcement of any rights of the Bank in such a case. As used in this paragraph, "attorneys' fees" includes the allocated costs of the Bank's in-house counsel.

9.7 One Agreement. This Agreement and any related security or other agreements required by this Agreement, collectively:

(a) represent the sum of the understandings and agreements between the Bank and the Borrower concerning this credit;

(b) replace any prior oral or written agreements between the Bank and the Borrower concerning this credit; and

(c) are intended by the Bank and the Borrower as the final, complete and exclusive statement of the terms agreed to by them.

In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail. Any reference in any related document to a "promissory note" or a "note" executed by the Borrower and dated as of the date of this Agreement shall be deemed to refer to this Agreement, as now in effect or as hereafter amended, renewed, or restated.

9.8 Indemnification. The Borrower will indemnify and hold the Bank harmless from any loss, liability, damages, judgments, and costs of any kind relating to or arising directly or indirectly out of (a) this Agreement or any document required hereunder, (b) any credit extended or committed by the Bank to the Borrower hereunder, and (c) any litigation or proceeding related to or arising out of this Agreement, any such document, or any such credit. This indemnity includes but is not limited to attorneys' fees (including the allocated cost of in-house counsel). This indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys, and assigns. This indemnity will survive repayment of the Borrower's obligations to the Bank. All sums due to the Bank hereunder shall be obligations of the Borrower, due and payable immediately without demand.

9.9 Notices. Unless otherwise provided in this Agreement or in another agreement between the Bank and the Borrower, all notices required under this Agreement shall be personally delivered or sent by first class mail, postage prepaid, or by overnight courier, to the addresses on the signature page of this Agreement, or sent by facsimile to the fax numbers listed on the signature page, or to such other addresses as the Bank and the Borrower may specify from time to time in writing. Notices and other communications shall be effective (i) if mailed, upon the earlier of receipt or five (5) days after deposit in the U.S. mail, first class, postage prepaid, (ii) if telecopied, when transmitted, or (iii) if hand-delivered, by courier or otherwise (including telegram, lettergram or mailgram), when delivered.

9.10 Headings. Article and paragraph headings are for reference only and shall not affect the interpretation or meaning of any provisions of this Agreement.

9.11 Counterparts. This Agreement may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement.

9.12 Prior Agreement Superseded. This Agreement supersedes the Business Loan Agreement entered into as of June 15, 1998, between the Bank and the Borrower, and any credit outstanding thereunder shall be deemed to be outstanding under this Agreement.

This Agreement is executed as of the date stated at the top of the first page.

| Borrower: | Bank: |
|---|---|
| Cohu, Inc. | Bank of America, N.A. |
| By: /s/ John H. Allen | By: /s/ Gordon W. Wiens |
| (Sgd.) John H. Allen, CFO | (Sgd.) Gordon W. Wiens, Senior Vice President |
| Address where notices to the Borrower are to be sent: | Address where notices to the Bank are to be sent: |
| | San Diego Middle Market Banking Office #2704 |
| | CA0-103-15-25 |
| 12367 Crosthwaite Circle | 450 B St. |
| Poway, CA 92064 | San Diego, CA 92101 |

Exhibit 31.1

COHU, INC.
SARBANES-OXLEY ACT SECTION 302(a)
CERTIFICATION

I, James A. Donahue, certify that:

1. I have reviewed this Form 10-Q of Cohu, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 26, 2004

/s/ James A. Donahue
- -------------------------------------
James A. Donahue
President and Chief Executive Officer

Exhibit 31.2

COHU, INC.
SARBANES-OXLEY ACT SECTION 302(a)
CERTIFICATION

I, John H. Allen, certify that:

1. I have reviewed this Form 10-Q of Cohu, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 26, 2004

/s/ John H. Allen

- ------------------------------------------------

John H. Allen
Vice President Finance & Chief Financial Officer

Exhibit 32.1

COHU, INC.
SARBANES-OXLEY ACT SECTION 906

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James A. Donahue, Chief Executive Officer of Cohu, Inc. (the "Registrant"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) the Quarterly Report on Form 10-Q of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: July 26, 2004

/s/ James A. Donahue
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James A. Donahue
President & Chief Executive Officer

Exhibit 32.2

COHU, INC.
SARBANES-OXLEY ACT SECTION 906

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, John H. Allen, Chief Financial Officer of Cohu, Inc. (the "Registrant"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) the Quarterly Report on Form 10-Q of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: July 26, 2004

/s/ John H. Allen

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John H. Allen
Vice President Finance &
Chief Financial Officer