UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1999

OR

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

COMMISSION FILE NUMBER 1-4298

COHU, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	95-1934119
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

5755 KEARNY VILLA ROAD, SAN DIEGO, CALIFORNIA	92123
(Address of principal executive office)	(Zip Code)

858-277-6700

(Registrant's telephone number, including area code)

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 X No

As of June 30, 1999, the Registrant had 9,901,762 shares of its $1.00 par value common stock outstanding.

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JUNE 30, 1999

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

ASSETS	JUNE 30, 1999 (Unaudited)	DECEMBER 31, 1998
Current assets:		
Cash and cash equivalents	$ 55,350	$ 74,446
Short-term investments	26,872	12,257
Accounts receivable, less allowance for doubtful accounts of $1,275 in 1999 and $1,338 in 1998	32,049	18,800
Inventories:		
Raw materials and purchased parts	14,839	12,977
Work in process	16,410	5,927
Finished goods	7,718	6,973
	38,967	25,877
Deferred income taxes	10,477	10,477
Prepaid expenses	1,777	1,541
Total current assets	165,492	143,398
Property, plant and equipment, at cost:		
Land and land improvements	2,501	2,501
Buildings and building improvements	12,162	12,102
Machinery and equipment	18,402	17,801
	33,065	32,404
Less accumulated depreciation and amortization	15,928	14,791
Net property, plant and equipment	17,137	17,613
Goodwill, net of accumulated amortization of $2,116 in 1999 and $1,972 in 1998	1,011	1,155
Other assets	65	65
	$183,705	$162,231

LIABILITIES AND STOCKHOLDERS' EQUITY	JUNE 30, 1999	DECEMBER 31, 1998
Current liabilities:		
Accounts payable	$ 12,929	$ 3,016
Income taxes payable	5,106	3,070
Other accrued liabilities	21,100	17,169
Total current liabilities	39,135	23,255
Accrued retiree medical benefits	992	993
Deferred income taxes	520	520
Stockholders' equity:		
Preferred stock	-	-
Common stock	9,902	9,779
Paid in excess of par	12,153	11,169
Retained earnings	121,003	116,515
Total stockholders' equity	143,058	137,463
	$183,705	$162,231

See accompanying notes

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

	THREE MONTHS ENDED JUNE 30, 1999	THREE MONTHS ENDED JUNE 30, 1998	SIX MONTHS ENDED JUNE 30, 1999	SIX MONTHS ENDED JUNE 30, 1998
Net sales	$ 43,471	$ 55,202	$ 72,997	$111,893
Cost and expenses:				
Cost of sales	25,750	35,625	44,914	68,992
Research and development	5,050	5,905	9,347	11,306
Selling, general and administrative	6,154	6,239	11,241	12,415
	36,954	47,769	65,502	92,713
Income from operations	6,517	7,433	7,495	19,180
Interest income	1,053	780	2,166	1,549
Income before income taxes	7,570	8,213	9,661	20,729
Provision for income taxes	2,700	2,900	3,400	7,200
Net income	$ 4,870	$ 5,313	$ 6,261	$ 13,529
Earnings per share:				
Basic	$ .49	$ .55	$ .64	$ 1.39
Diluted	$ .48	$ .53	$ .62	$ 1.35
Weighted average shares used in computing earnings per share:				
Basic	9,863	9,726	9,835	9,706
Diluted	10,173	10,012	10,116	10,040

See accompanying notes.

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

	SIX MONTHS ENDED JUNE 30, 1999	SIX MONTHS ENDED JUNE 30, 1998
Cash flows from operating activities:		
Net income	$ 6,261	$ 13,529
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	1,365	1,207
Purchase consideration to be paid with stock	-	361
Increase (decrease) in accrued retiree medical benefits	(1)	44
Changes in assets and liabilities:		
Accounts receivable	(13,249)	(6,637)
Inventories	(13,090)	1,151
Prepaid expenses	(236)	64
Accounts payable	9,913	(5,643)
Income taxes payable	2,036	1,423
Other accrued liabilities	3,931	(526)
Net cash provided by (used for) operating activities	(3,070)	4,973
Cash flows from investing activities:		
Purchases of short-term investments	(20,915)	(8,084)
Maturities of short-term investments	6,300	13,214
Purchases of property, plant, equipment and other assets	(745)	(1,295)
Net cash provided by (used for) investing activities	(15,360)	3,835
Cash flows from financing activities:		
Issuance of stock, net	1,107	1,873
Cash dividends	(1,773)	(1,555)
Net cash provided by (used for) financing activities	(666)	318
Net increase (decrease) in cash and cash equivalents	(19,096)	9,126
Cash and cash equivalents at beginning of period	74,446	39,736
Cash and cash equivalents at end of period	$ 55,350	$ 48,862

	1999	1998
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 1,364	$ 5,777

See accompanying notes.

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1999

1. BASIS OF PRESENTATION

The accompanying interim financial statements are unaudited but include all adjustments (consisting of normal recurring adjustments) which Cohu, Inc. (the "Company") considers necessary for a fair statement of the results for the period. The operating results for the three and six months ended June 30, 1999 are not necessarily indicative of the operating results for the entire year or any future period. These financial statements should be read in conjunction with the consolidated financial statements incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 1998 and management's discussion and analysis of financial condition and results of operations included elsewhere herein. Certain amounts in the December 31, 1998 consolidated balance sheet have been reclassified to conform to the June 30, 1999 presentation.

2. EARNINGS PER SHARE

Earnings per share are computed in accordance with Financial Accounting Standards Board ("FASB") Statement No. 128, Earnings per Share. Basic earnings per share are computed using the weighted average number of common shares outstanding during each period. Diluted earnings per share include the dilutive effect of common shares potentially issuable upon the exercise of stock options. For purposes of computing diluted earnings per share, weighted average common share equivalents do not include stock options with an exercise price that exceeds the average fair market value of the Company's common stock for the period. For the three and six months ended June 30, 1999, options to purchase approximately 53,000 and 82,000 shares of common stock at average prices of $40.66 and $36.10, respectively, were excluded from the computation, and for the three and six months ended June 30, 1998, options to purchase approximately 216,000 and 120,000 shares of common stock at average prices of $37.23 and $37.86, respectively, were excluded from the computation. The following table reconciles the denominators used in computing basic and diluted earnings per share:

	THREE MONTHS ENDED JUNE 30, (in thousands)		SIX MONTHS ENDED JUNE 30, (in thousands)	
	1999	1998	1999	1998
Weighted average common shares outstanding	9,863	9,726	9,835	9,706
Effect of dilutive stock options	310	286	281	334
	10,173	10,012	10,116	10,040

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1999

3. SEGMENT AND RELATED INFORMATION

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

	Three months ended June 30, 1999	Three months ended June 30, 1998	Six months ended June 30, 1999	Six months ended June 30, 1998
	(in thousands)		(in thousands)	
Net sales:				
Semiconductor equipment	$35,382	$45,905	$57,756	$ 93,518
Television cameras	4,944	5,316	9,173	10,712
Net sales for reportable segments	40,326	51,221	66,929	104,230
All other operating segments	3,145	3,981	6,068	7,663
Total consolidated net sales	$43,471	$55,202	$72,997	$111,893
Operating profit (loss):				
Semiconductor equipment	$ 7,229	$ 7,412	$ 8,687	$ 18,617
Television cameras	337	599	511	1,208
Operating profit for reportable segments	7,566	8,011	9,198	19,825
All other operating segments	(538)	(62)	(800)	170
Total consolidated operating profit	7,028	7,949	8,398	19,995
Other unallocated amounts:				
Corporate expenses	(439)	(477)	(759)	(736)
Interest income	1,053	780	2,166	1,549
Goodwill amortization	(72)	(39)	(144)	(79)
Income before income taxes	$ 7,570	$ 8,213	$ 9,661	$ 20,729

	June 30, 1999	December 31, 1998
	(in thousands)	
Total assets by segment:		
Semiconductor equipment	$ 74,739	$ 50,754
Television cameras	9,493	8,728
Total assets for reportable segments	84,232	59,482
All other operating segments	6,076	7,537
Corporate	93,397	95,212
Total consolidated assets	$183,705	$162,231

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
JUNE 30, 1999

This Form 10-Q contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the Safe Harbor provisions created by that statute. The words "anticipate", "expect", "believe", and similar expressions are intended to identify such statements. Such statements are subject to various risks and uncertainties, including but not limited to those discussed herein and, in particular, under the caption "Business and Market Risks" that could cause actual results to differ materially from those projected.

RESULTS OF OPERATIONS

SECOND QUARTER 1999 COMPARED TO SECOND QUARTER 1998

Net sales decreased 21% to $43.5 million in 1999 compared to net sales of $55.2 million in 1998. The second quarter of 1998 included a significant amount of revenue from sales of the Company's Enterprise test-in-tray handler. There were no Enterprise handler sales in the 1999 period. Sales of semiconductor test handling equipment in 1999 decreased 23% from the 1998 period and accounted for 81% of consolidated net sales in 1999 versus 83% in 1998. Sales of television cameras and other equipment decreased 7% while the combined sales of metal detection and microwave equipment decreased 21%. Export sales accounted for 67% of net sales in the second quarter of 1999 compared to 44% for the year ended December 31, 1998.

Gross margin as a percentage of net sales increased to 40.8% in 1999 from 35.5% in 1998 as a result of higher margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins increased in 1999 primarily as a result of changes in product mix. During the second quarter of 1998 the Company shipped a significant number of its Enterprise semiconductor test handlers. The gross margins realized on these sales were lower than the Company's established semiconductor handler products due to manufacturing inefficiencies incurred in the early stages of producing new equipment and higher estimated warranty costs. Research and development expense as a percentage of net sales was 11.6% in 1999, compared to 10.7% in 1998, decreasing in absolute dollars from $5.9 million to $5.1 million. Selling, general and administrative expense as a percentage of net sales increased to 14.2% in 1999 from 11.3% in 1998 primarily as a result of the decrease in business volume. Interest income increased to $1.1 million in 1999 from $.8 million in 1998 as a result of the increase in average cash and investments. The provision for income taxes expressed as a percentage of pre-tax income was 35.7% in the second quarter of 1999 and 35.3% for the second quarter of 1998. As a result of the factors set forth above, net income decreased from $5.3 million in 1998 to $4.9 million in 1999.

SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998

Net sales decreased 35% to $73.0 million in 1999 compared to net sales of $111.9 million in 1998. Net sales during the first half of 1999 were negatively impacted by the semiconductor industry downturn that began in mid 1998. In addition, the second quarter of 1998 included a significant amount of revenue from sales of the Company's Enterprise handler with none in the 1999 period. Sales of semiconductor test handling equipment in 1999 decreased 38% from the 1998 period and accounted for 79% of consolidated net sales in 1999 versus 84% in 1998. Sales of television cameras and other equipment decreased 14% while the combined sales of metal detection and microwave equipment decreased 21%. Export sales accounted for 62% of net sales in the first six months of 1999 compared to 44% for the year ended December 31, 1998.

Gross margin as a percentage of net sales was 38.5% in 1999 versus 38.3% in 1998. The gross margin in 1999 was negatively impacted by lower business volume while the 1998 gross margin was adversely impacted by lower margins on sales of the Company's Enterprise test handlers. Research and

SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998 (CONT.)

development expense as a percentage of net sales was 12.8% in 1999, compared to 10.1% in 1998, decreasing in absolute dollars from $11.3 million to $9.3 million. Selling, general and administrative expense as a percentage of net sales increased to 15.4% in 1999 from 11.1% in 1998 primarily as a result of the decrease in business volume. Interest income increased to $2.2 million in 1999 from $1.5 million 1998 as a result of the increase in average cash and investments. The provision for income taxes expressed as a percentage of pre-tax income was 35.2% in the first six months of 1999 compared to 34.7% for the first six months of 1998. As a result of the factors set forth above, net income decreased from $13.5 million in 1998 to $6.3 million in 1999.

LIQUIDITY AND CAPITAL RESOURCES

The Company's net cash flows used for operating activities in the first six months of 1999 totaled $3.1 million. The major components of cash flows used for operating activities were net income of $6.3 million and an increase in accounts payable of $9.9 million offset by increases in inventories and accounts receivable of $13.1 million and of $13.2 million, respectively. Net cash used for investing activities included $14.6 million for the purchase of short-term investments, less maturities, and purchases of property, plant and equipment and other assets of $.7 million. Net cash used for financing activities was $.7 million. Cash used for financing activities included $1.8 million for the payment of dividends, offset by $1.1 million received from the issuance of stock upon the exercise of stock options. The Company had $10 million available under its bank line of credit and working capital of $126.4 million at June 30, 1999. It is anticipated that present working capital and available borrowings under the line of credit will be sufficient to meet the Company's operating requirements for the next twelve months.

BUSINESS AND MARKET RISKS

INDUSTRY CYCLES

The Company's operating results are substantially dependent on its semiconductor equipment business. This capital equipment business is in turn highly dependent on the overall strength of the semiconductor industry. Historically, the semiconductor industry has been highly cyclical with recurring periods of oversupply and excess capacity, which often have had a significant effect on the semiconductor industry's demand for capital equipment, including equipment of the type manufactured and marketed by the Company. The Company believes that the markets for newer generations of semiconductors may also be subject to similar cycles and severe downturns, such as those experienced in 1996 and 1998. Reductions in capital equipment investment by semiconductor manufacturers will adversely affect the Company's financial position and results of operations.

RAPID TECHNOLOGICAL CHANGE AND NEW PRODUCTS

Semiconductor equipment and processes are subject to rapid technological change. The Company believes that its future success will depend in part on its ability to enhance existing products and develop new products with improved performance capabilities. The Company expects to continue to invest heavily in research and development and must manage product transitions successfully, as introductions of new products could adversely impact sales or margins of existing products. In addition, the introduction of new products increases the risk that existing products will become obsolete resulting in greater excess and obsolete inventory exposure. This increased exposure may result in increased inventory reserve requirements similar to or in excess of those recorded in 1998 that could have a material adverse impact on the Company's financial condition and results of operations.

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

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

The transition from product development to the manufacture of new semiconductor equipment is a difficult process and delays in product introductions and problems in manufacturing such equipment are common. During 1998 and 1999 the Company experienced difficulties in manufacturing and volume production of its new Enterprise and Castle test handlers. These difficulties, which have been exacerbated by a significant increase in orders for the Castle and the Company's other pick and place handler products, are expected to continue at least through the third quarter of 1999. In addition, after sale support and warranty costs are typically greater with new test handlers than with established products. There can be no assurance that future technologies, processes and product developments will not render the Company's current or future product offerings obsolete or that the Company will be able to develop, introduce and successfully manufacture new products or make enhancements to its existing products in a timely manner to satisfy customer requirements or achieve market acceptance. Furthermore, there is no assurance that the Company will realize acceptable profit margins on such products.

BACKLOG
The Company's order backlog has risen dramatically from December 31, 1998 primarily as a result of the improved business conditions in the semiconductor equipment industry and strong demand for the Company's new pick and place test handler products. A significant portion of the semiconductor test handling equipment backlog at June 30, 1999 was for new products, including the Castle and Summit test handlers. Due to the possibility of customer changes in delivery schedules, cancellation of orders, potential delays in product shipments and failure to satisfy customer acceptance requirements, the Company's backlog as of any point in time may not be representative of actual sales in any future period.

BUSINESS AND MARKET RISKS (CONT.)

No assurance can be given that the Company will successfully resolve these or other issues. All orders are subject to cancellation or rescheduling by the customer with limited penalty.

DEMANDS ON INFRASTRUCTURE

The semiconductor equipment industry is characterized by dramatic and sometimes volatile changes in demand for its products. Changes in product demand result from a number of factors including the semiconductor industry's ever changing and unpredictable capacity requirements and changes in IC design and packaging. Sudden changes in demand for semiconductor equipment have a significant impact on the operations of the Company and other semiconductor equipment manufacturers. In response to a severe industry downturn in 1998, the Company reduced its total workforce by approximately 40%. During the first six months of 1999, the Company increased its workforce by more than 30% as business conditions in the semiconductor equipment industry and the Company's order backlog improved dramatically. Such radical changes in workforce levels place enormous demands on the Company's operations and infrastructure since newly hired personnel rarely possess the expertise and level of experience of people they replace. The Company has recently experienced difficulties, particularly in manufacturing, in training the large number of additions to its workforce. In addition, competition for the employment services of certain personnel, particularly those with technical skills, is intense. No assurance can be given that the Company will successfully adjust its production capacity to meet customers' changing requirements. The inability to meet such requirements will have an adverse impact on the Company's financial position and results of operations.

DECLINE IN GRAVITY-FEED IC TEST HANDLER SALES

Sales of gravity-feed IC test handlers used in DRAM testing have represented a significant percentage of the Company's total semiconductor equipment related revenue during the last five years. Due to changes in IC package technology, gravity-feed handlers are no longer suitable for handling many types of DRAMs. As a result, the Company has seen a significant decline in sales of its gravity-feed test handler products. The Company introduced its Enterprise handler in 1998 that employs a handling technique, known as test- in-tray, that is particularly suited for parallel test applications like DRAMs. While the benefits of test-in-tray may be significant and the Company sold a significant number of these handlers in 1998, market acceptance of this product has been very limited and the future use of this technology is uncertain. If the Company is unable to successfully develop and market new products or enhancements to existing products for DRAM applications the Company's results of operations will be adversely impacted.

HIGHLY COMPETITIVE INDUSTRY

The semiconductor equipment industry is intensely competitive and the Company faces substantial competition from numerous companies throughout the world. Some of these competitors have substantially greater financial, engineering, manufacturing and customer support capabilities and offer more extensive product offerings than the Company. In addition, there are smaller, emerging semiconductor equipment companies that provide or may provide innovative technology incorporated in products that may compete favorably against those of the Company. The Company expects its competitors to continue to improve the design and performance of their current products and to introduce new products with improved

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

performance capabilities. Failure to introduce new products in a timely manner, the introduction by competitors of products with perceived or actual advantages or disputes over rights of the Company or its competitors to use certain intellectual property or technology could result in a loss of the Company's competitive position and reduced sales of or margins on existing products.

CUSTOMER CONCENTRATION

As is common in the semiconductor equipment industry, the Company relies on a limited number of customers for a substantial percentage of its net sales. In 1998, three customers of the semiconductor equipment segment accounted for 51% of the Company's net sales. The loss of or a significant reduction in orders by these or other significant customers would adversely impact the Company's financial condition and results of operations. Furthermore, the concentration of the Company's revenues in a limited number of large customers may cause significant fluctuations in the Company's future annual and quarterly operating results.

NON SEMICONDUCTOR EQUIPMENT BUSINESSES

The Company develops, manufactures and sells products used in closed circuit television, metal detection and microwave radio applications. These products are sold in highly competitive markets and many competitors are segments of large, diversified companies with substantially greater financial, engineering, marketing, manufacturing and customer support capabilities than the Company. In addition, there are smaller companies that provide or may provide innovative technology incorporated in products that may compete favorably against those of the Company. The Company has seen a significant decline in the operating results of these businesses over the last several years and the future prospects for certain of these businesses remain uncertain. No assurance can be given that the Company will continue to compete successfully in any of these businesses.

FOREIGN SALES

During the first six months of 1999, 62% of the Company's total net sales were exported to foreign countries, including more than 70% of the sales in the semiconductor equipment segment. The majority of the Company's export sales are made to destinations in Asia. Instability in global economic markets, particularly in Asia, may adversely impact the demand for capital equipment, including equipment of the type manufactured and marketed by the Company. In addition, changes in the amount or price of semiconductors produced in Asia could impact the profitability or capital equipment spending programs of the Company's foreign and domestic customers.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At June 30, 1999 the Company's investment portfolio includes fixed-income securities of $77 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 the Company's investment portfolio, an immediate 10 percent increase in interest rates would have no material impact on the Company's financial condition or results of operations.

The Company generally conducts business, including sales to foreign customers, in U. S. dollars and as a result has limited foreign currency exchange rate risk. Monetary assets and liabilities of the Company's

COHU, INC.
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BUSINESS AND MARKET RISKS (CONT.)
Singapore and Taiwan operations are not significant. The effect of an immediate 10 percent change in foreign exchange rates would not have a material impact on the Company's financial condition or results of operations.

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

Internal Infrastructure Readiness: The Company, assisted by third parties, has completed an assessment of internal applications and computer hardware. Some software applications have been made Y2K compliant and resources have been assigned to address other applications based on their importance and the time required to make them Y2K compliant. All software remediation is expected to be completed no later than September 1999. The Y2K compliance evaluation of hardware, including hubs, routers, telecommunication equipment, workstations and other items is also expected to be completed by September 1999.

In addition to applications and information technology hardware, the Company is in the process of assessing, testing and remediating its non-information technology systems including embedded systems, facilities and other operations. The Company expects to have this work completed by September 1999.

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

Supplier Readiness: This program focuses on minimizing the risks associated with key suppliers. The Company has identified and contacted key suppliers to solicit information on their Y2K readiness. To date, the Company has received responses from the majority of its key suppliers most of whom indicate that they believe products provided to the Company are either Y2K compliant or will be made Y2K complaint on a timely basis. Based on the Company's assessment of each supplier's progress to adequately address the Y2K issue, the Company is developing a supplier action list and contingency plans. Supplier readiness issues that potentially affect the Company's products are expected to be addressed by September 1999.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
JUNE 30, 1999

BUSINESS AND MARKET RISKS (CONT.)

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

The Company estimates that total Y2K costs will be approximately $500,000, the great majority of which will be incurred by January 2000. Y2K costs incurred through June 30, 1999 have been charged to operations and have not been material. The Company is continuing its assessments and developing alternatives that will necessitate refinement of this estimate over time. There can be no assurance, however, that there will not be a delay in, or increased costs associated with, the programs described in this section.

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

Due to all the above and other factors, historical results may not be indicative of results of operations for any future period. In addition, certain matters discussed above are forward-looking statements that are subject to the risks and uncertainties noted herein and the other risks and uncertainties listed from time to time in the Company's filings with the Securities and Exchange Commission, including but not limited to the 1998 Annual Report on Form 10-K, that could cause actual results to differ materially from those projected or forecasted. The Company undertakes no obligation to update the information, including the forward-looking statements, in this Form 10-Q.

Part II OTHER INFORMATION

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

The Annual Meeting of Stockholders was held on May 11, 1999. At the meeting the following directors were elected:

DIRECTOR	Number of Common Shares Voted	
	For	Withhold Authority
Charles A. Schwan	9,167,254	42,068
Gene E. Leary	9,056,531	152,791

The directors continuing in office until 2000 or 2001 are James W. Barnes, Harry L. Casari, Frank W. Davis and Harold Harrigian.

ITEM 5. OTHER INFORMATION

On July 13, 1999 William S. Ivans, the Chairman of the Board of Directors, was killed in a glider plane accident. On July 15, 1999 the Company's Board of Directors elected Charles A. Schwan as Chairman of the Board succeeding Mr. Ivans.

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

(a) Exhibits:

- 3.1(a) - Amended and Restated Certificate of Incorporation of Cohu, Inc.
- 10.1 - Amendment No. 1 to Business Loan Agreement dated May 19, 1999 between Cohu, Inc. and Bank of America National Trust and Savings Association
- 10.2 - Lease Assignment Agreement dated June 25, 1999 by and between Cohu, Inc., Cubic Defense Systems, Inc. and Thomas G. Plein and Diane L. Plein
- 27.1 - Financial Data Schedule

(b) Reports on Form 8-K: The Company did not file any reports on Form 8-K during the quarter ended June 30, 1999.

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 19, 1999

/s/ Charles A. Schwan

Charles A. Schwan
President & Chief Executive Officer

Date: July 19, 1999

/s/ John H. Allen

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

Exhibit 3.1(a)

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF COHU, INC.

We, the undersigned, CHARLES A. SCHWAN, the President, and JOHN H. ALLEN, the Secretary, of COHU, INC., a corporation of the State of Delaware (hereinafter called the "Corporation"), do hereby certify as follows:

FIRST: COHU, INC., a corporation of the State of Delaware, was originally incorporated under the name Cohu Electronics, Inc., and its original certificate of incorporation was filed with the Secretary of State on January 2, 1957.

SECOND: That at a meeting of the Board of Directors, duly held and convened, the following Restated Certificate of Incorporation of COHU, INC. ("Restated Certificate") was duly adopted by the directors in accordance with Section 245 and 242 of the General Corporation Law of the State of Delaware. Said Restated Certificate only restates and integrates and does not further amend the provisions of the Corporation's certificate of incorporation as heretofore amended or supplemented, and there is no discrepancy between those provisions and the provisions of the Restated Certificate. The duly adopted Restated Certificate is as follows:

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

SECOND: The name and address of its registered agent is The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware, 19801, located in New Castle County.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, and after the holders of the Preferred Stock shall have been paid in full amounts to which they respectively shall be entitled, or an amount sufficient to pay the aggregate amount to which such holders shall be entitled shall have been deposited in trust with a bank or trust company having its principal office in the Borough of Manhattan, City, County and State of New York, or the City of Los

Angeles, State of California, having a capital, undivided profits and surplus aggregating at least $5,000,000 for the benefit of the holders of the Preferred Stock, the remaining net assets of the Corporation shall be distributed pro rata to the holders of the Common Stock.

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

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

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

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

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

EIGHTH: The corporation is to have perpetual existence.

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

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

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

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

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

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

When and as authorized by the affirmative vote of the holders of a majority of the stock issued and outstanding having voting power given at a stockholders' meeting duly called for that purpose, or when authorized by the written consent of the holders of a majority of the voting stock issued and outstanding, to sell, lease or exchange all of the property and assets of the corporation, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may be in whole or in part shares of stock in, and/or other securities of any other corporation or corporations, as its board of directors shall deem expedient and for the best interests of the corporation.

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

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

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

FOURTEENTH: The Board of Directors of this Corporation is divided into three classes, Class 1, Class 2 and Class 3. The number of Directors in each class shall be the whole number contained in the quotient arrived at by dividing the authorized number of Directors by three, and if a fraction is also contained in such quotient, then if such fraction is one-third, the extra Director shall be a member of Class 3, and if the fraction is two-thirds, one of the Directors shall be a member of Class 3 and the other shall be a member of Class 2. Each Director shall serve for a term ending on the date of the third annual meeting following that at which such Director is elected, and Directors of only one class shall be elected at any annual meeting, except as hereinafter provided. The Directors elected at the meeting of stockholders at which the Amendment to the Certificate of Incorporation of this Corporation to include this Article is approved shall determine which of them shall belong to Class 1, which to Class 2, and which to Class 3 by resolution of the

Board, which resolution when adopted may not be amended or rescinded. Those so determined as belonging to Class 1 shall serve for a term ending on the annual meeting date next following, those so determined as belonging to Class 2 shall serve for a term ending on the second annual meeting date next following, and those so determined as belonging to Class 3 shall serve a full term as hereinabove provided. The foregoing notwithstanding, each Director shall serve until a successor shall have been duly elected and qualified unless he shall resign, become disqualified, die or shall be removed as provided in this Certificate of Incorporation.

No Director of the Corporation shall be removed from office as a Director by vote or other action of stockholders or otherwise, unless the Director to be removed has been convicted of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal, or unless the Director to be removed has been adjudged to be liable for negligence or misconduct in the performance of his duty to the Corporation by a court of competent jurisdiction and such adjudication is no longer subject to direct appeal.

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

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

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

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

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

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

IN WITNESS WHEREOF, we, said CHARLES A. SCHWAN and JOHN H. ALLEN, have executed this Amended and Restated Certificate of Incorporation on this 12 day of May, 1999.

/s/ Charles A. Schwan

CHARLES A. SCHWAN, President

/s/ John H. Allen

JOHN H. ALLEN, Secretary

Exhibit 10.1

AMENDMENT TO DOCUMENTS

AMENDMENT NO. 1 TO BUSINESS LOAN AGREEMENT

This Amendment No. 1 (the "Amendment") dated as of May 19, 1999, is between Bank of America National Trust and Savings Association (the "Bank") and Cohu, Inc. (the "Borrower").

RECITALS

A. The Bank and the Borrower entered into a certain Business Loan Agreement dated as of June 15, 1998 (the "Agreement").

B. The Bank and the Borrower desire to amend the Agreement.

AGREEMENT

1 DEFINITIONS. Capitalized terms used but not defined in this Amendment shall have the meaning given to them in the Agreement.

2 AMENDMENTS. The Agreement is hereby amended as follows:

2.1 In Paragraph 1.2 of the Agreement, the date "MAY 1, 2000" is substituted for the date "MAY 1, 1999".

2.2 In Paragraph 6.3 of the Agreement, the ratio "2.25:1.0" is substituted for the ratio "1.5:1.0".

2.3 In Paragraph 6.4 of the Agreement, the amount "ONE HUNDRED THIRTY MILLION DOLLARS ($130,000,000)" is substituted for the amount "ONE HUNDRED TWENTY MILLION DOLLARS ($120,000,000)".

2.4 A new Paragraph 6.19 is added to the Agreement, which reads in its entirety as follows:

"6.19 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."

3 REPRESENTATIONS AND WARRANTIES. When the Borrower signs this Amendment, the Borrower represents and warrants to the Bank that: (a) there is no event which is, or with notice or lapse of time or both would be, a default under the Agreement except those events, if any, that have been disclosed in writing to the Bank or waived in writing by the Bank, (b) the representations and warranties in the Agreement are true as of the date of this Amendment as if made on the date of this Amendment, (c) this Amendment is within the Borrower's powers, has been duly authorized, and does not conflict with any of the Borrower's organizational papers, and (d) this Amendment does not conflict with any law, agreement, or obligation by which the Borrower is bound.

4 EFFECT OF AMENDMENT. Except as provided in this Amendment, all of the terms and conditions of the Agreement shall remain in full force and effect.

This Amendment is executed as of the date stated at the beginning of this Amendment.

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION	Cohu, Inc.
X /s/ Paul M. Tuomanien, Jr.	X /s/ John H. Allen
By: Paul M. Tuomainen, Jr., Vice President	By: John H. Allen, Vice President Finance & CFO

Exhibit 10.2

LEASE ASSIGNMENT AGREEMENT

This Lease Assignment Agreement ("Lease Assignment") is entered into on this 25th day of June, 1999 by and between Cohu, Inc., a Delaware corporation ("Assignee"), Cubic Defense Systems, Inc. ("Assignor"), and Thomas G. Plein and Diane L. Plein (collectively "Lessor").

WHEREAS, subject to the terms and conditions herein, Assignor desires to assign, and Assignee desires to accept that certain American Industrial Real Estate Association Standard Industrial/Commercial Single-Tenant Lease-Gross ("Lease Agreement"), attached hereto as Exhibit A, dated June 26, 1995, by and between Assignor, as Lessee and Lessor; and

WHEREAS, Lessor consents to such assignment;

NOW THEREFORE, Assignee, Assignor and Lessor agree as follows:

1. Assignment. Subject to the terms and conditions herein, Assignor hereby assigns and Assignee hereby accepts the assignment of the Lease Agreement, including, without limitation, the right to exercise the Option.

2. Lease Provisions Incorporated.

2.1. Except as expressly set forth herein, Assignee shall assume all of the obligations, liabilities, and covenants as of the Effective Date.

2.2. "Effective Date" shall mean July 1, 1999.

2.3. Assignee's obligation to pay Basic Rent under the Lease Agreement shall commence effective November 15, 1999 (pro-rated for the month of November, 1999). Basic Rent, and all other payment obligations of Assignee pursuant to the Lease Agreement shall be paid to Lessor as set forth in the Lease Agreement.

3. Indemnity. Assignee shall defend, indemnify and/or hold harmless Assignor from and against all liabilities, claims, suits, proceedings, appeals, damages, demands, and allegations (collectively "Claims") pertaining to: Assignee's use and/or occupancy of the Premises; Lessor's Claims, and breaches of the Lease Agreement attributable to Assignee; and all conduct, malfeasance, omissions and commissions of Assignee and its agents, employees, contractors, and invitees.

4. Security Deposit. Assignee shall reimburse to Assignor Assignor's security deposit of Thirty-Seven Thousand Nine Hundred and Eighty-Five Dollars ($37,985). Lessor, in turn, shall transfer Assignor's security deposit of Thirty-Seven Thousand Nine Hundred and Eighty-Five Dollars ($37,985) to Assignee's account. Landlord hereby confirms that there are no outstanding liabilities applicable to the Security Deposit.

5. Conditions Precedent. The following are conditions precedent to this Lease Assignment:

5.1. This Lease Assignment is conditioned upon the written consent of Lessor pursuant to the Lease Agreement.

5.2. This Lease Assignment is conditioned upon Assignee's physical inspection of the Premises solely to verify that the building systems are in good working order.

5.3. This Lease Assignment is conditioned upon receipt of and approval by Assignor of Assignee's written intended use and planned modifications, if any, of and to the Premises. Assignee covenants to Assignor to abide by such written intended use and planned modifications, if any.

6. Limited Release of Lessor. Lessor shall not, by reason of this Lease Assignment, nor by reason of collection of the rents from Assignee, be deemed liable to Assignee for any failure of Assignor to perform and comply with any of Assignor's obligations to Assignee under this Lease Assignment.

7. Lessor Consent/Limited Waiver/Release by Lessor.

7.1. Lessor hereby consents to this Lease Assignment.

7.2. Lessor hereby waives their right, pursuant to Article 12.2(g) of the Lease Agreement, to require that the Security Deposit be increased to an amount equal to six (6) times the monthly Base Rent.

7.3. Lessor hereby waives their right, pursuant to Article 12.2(h) of the Lease Agreement, to require the amount and adjustment structure of the rent be adjusted.

7.4. Should Assignee and Lessor agree to a lease term beyond the Original Term (which would include, without limitation, exercise of the Option), then Lessor hereby releases Assignor, effective at such time, from all Claims pertaining to the Premises, known and unknown, including without limitation, Assignor's and Assignee's use and occupancy of the Premises, and in that regard, Lessor hereby waives all of their rights afforded to them under California Civil Code Section 1542, which provides:

> Section 1542. CERTAIN CLAIMS NOT AFFECTED BY GENERAL RELEASE. A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

8. Assignor's Warranties and Covenants. In addition to other warranties and covenants which may be set forth herein, Assignor warrants and covenants as follows:

8.1. Assignor warrants that it is the Lessee under the Lease Agreement, that it is in compliance with all of its obligations under the Lease Agreement, and that it is not in default with respect to the Lease Agreement.

8.2. Assignor covenants that, provided that Assignee discharges all of its obligations hereunder and pursuant to the Lease Agreement, that Assignor will take no action which would interfere with or terminate Assignee's rights under the Lease Agreement.

9. Third-Party Beneficiary. Lessor shall be a third-party beneficiary under this Lease Assignment. There shall be no other third-party beneficiaries under this Lease Assignment.

10. Construction. Unless otherwise expressly defined in this Lease Assignment, all terms herein shall have the same meaning as the terms have in the Lease Agreement. This Lease Assignment shall not be construed as if it had been prepared by one of the parties, but rather as if all parties had prepared the same. All recitals are incorporated into this Lease Assignment by reference. The parties hereby waive California Civil Code Section 1654 which states "In cases of uncertainty not removed by the preceding rules, the language of a contract should be interpreted most strongly against the party who causes the uncertainty to exist."

11. Brokers. The parties warrant to each other that CB Richard Ellis is the sole broker in this Lease Assignment, representing both parties. Both parties warrant that no other broker has been engaged on their behalf with respect to this Lease Assignment.

12. General Provisions.

12.1. Time is of the Essence. Time is of the essence of this Lease Assignment and each and every part hereof.

12.2. Notices. Notices, requests, demands and other communications required or permitted to be given under this Lease Assignment shall be in writing and shall be served personally or shall be delivered to the party to whom notice is to be given, by reputable overnight mail equivalent carrier or by first class mail, properly posted and addressed as follows:

To Assignor:

Cubic Defense Systems, Inc.
Attention: John D. Thomas
9333 Balboa Avenue
San Diego, CA 92123
Fax: 619-505-1508

With a copy to:

Legal Department
Cubic
9333 Balboa Avenue
San Diego, CA 92123
Fax: 619-505-1559

To Assignee:

Cohu, Inc.
5755 Kearny Villa Road
San Diego, CA 92123-1111
Attention: John Allen

12.3. Attorneys' Fees. In the event of any action at law or in equity between the parties hereto to enforce any of the provisions hereof, the unsuccessful party or parties to such litigation including any appeals, shall pay to the successful party or parties all costs and expenses, including reasonable attorneys' fees, incurred therein by such successful party or parties; and if such successful party or parties shall recover judgment in any such action or proceeding, such costs, expenses and attorneys' fees may be included in and as part of such judgment. The successful party shall be the party who is entitled to recover its costs of suit, whether or not the suit proceeds to final judgment.

12.4. Governing Law and Venue. This Lease Assignment shall be construed in accordance with the laws of the State of California. Any action brought at law or in equity relating to or in connection with this Lease Assignment must be maintained in San Diego, California.

12.5. Integration, Amendment. This Lease Assignment constitutes the full and complete assignment and understanding between the parties hereto and shall supersede any and all prior and contemporaneous written and oral agreements concerning the subject matter contained herein. This Lease Assignment and any portions thereof may be modified, amended or waived only by a written instrument executed by the party against whom such amendment, modification or waiver shall be enforced.

12.6. Headings. The titles or headings of the various paragraphs hereof are intended solely for convenience or reference and are not intended and shall not be deemed to modify or explain any of the provisions of this Lease Assignment.

12.7. Severability. If any material condition or provision herein contained is held to be invalid, void or unenforceable by a final judgment of any court of competent jurisdiction, then the remaining provisions of this Lease Assignment remain in full force and effect.

12.8. Waiver. No waiver by any party hereto of any breach or default shall be considered to be a waiver of any other breach or default. The waiver of any condition shall not constitute a waiver of any breach of default. The waiver of any condition shall not constitute a waiver of any breach or default with respect to any other condition, representation or warranty.

12.9. Relationship Between the Parties. The parties agree that the relationship between them shall not be construed as a partner, agency, joint venture, alter ego, employee or employer.

12.10. Further Instruments and Action. The parties agree to execute all instruments and documents and to take all actions as may be required in order to consummate the transaction contemplated by this Lease Assignment.

12.11. Assignment. Assignor may assign its rights and obligations under the Lease Assignment to its parent company and/or subsidiaries thereof, and/or to any entity which acquires more than fifty per cent of Assignor. Other than the foregoing, no party may assign any portion of this Lease Assignment without the express written consent of the other party.

12.12. Authorization, Execution. Assignee is a Corporation duly organized, existing, and in good standing under the laws of the State of Delaware. The execution and delivery of this Lease Assignment and consummation of this transaction by Assignee have been duly authorized, and no further corporate authorization is necessary on the part of Assignee. This Lease Assignment was executed in San Diego, California, U.S.A. The persons signing this Lease Assignment represent that they are authorized to sign this Lease Assignment.

12.13. Execution in Counterparts, by Facsimile. This Lease Assignment may be executed in counterparts (i.e. the signatures may be on separate pages) and by facsimile transmission.

13. Certificate of Incumbency. The parties shall provide a Certificate of Incumbency showing the title of signers of this Lease Assignment.

14. Hazardous Substance. In addition to the obligations of the Lessor set forth in Paragraph 6.2 of the Addendum to the Lease Agreement, Assignor shall indemnify, defend and hold harmless Assignee, its directors, officers, agents and employees and the Premises harmless from and against any and all loss, damages, liabilities, judgment, costs, claims, liens, expenses, penalties and attorney's and consultants' fees arising out of or involving and Hazardous Substance or contamination of soil, groundwater or any other material present on the premises caused by Assignor during the period from June 26, 1995 through July 1, 1999, which is the period the Premises have been under the control of Assignor.

15. Phase I Environmental Report. Assignee shall have the right at its own expense to obtain a Phase I Environmental Report on the Premises by August 1, 1999. In the event that Assignee shall obtain such a Report and the Report should specify any environmental issues which cannot be remedied to the satisfaction of Assignee, this Assignment shall be terminated immediately upon notice to Assignor and of no further force or effect. This Paragraph shall be void if Assignee to provide such notice to Assignor on or before August 1, 1999.

ASSIGNOR
Cubic Defense Systems, Inc.

BY: /s/ John D. Thomas

John D. Thomas
Vice President & Treasurer

DATE: June 24, 1999

ASSIGNEE
COHU, INC.

BY: /s/ Charles A. Schwan

Charles A. Schwan
[Print Name]

TITLE: Chief Executive Officer

DATE: June 24, 1999

Lessor hereby consents to the within Assignment.

LESSOR

BY: /s/ Thomas G. Plein

Thomas G. Plein

DATE: June 24, 1999

BY: /s/ Diane L. Plein

Diane L. Plein

DATE: June 24, 1999

5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM 1999
FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH
FINANCIAL STATEMENTS.

1,000

6-MOS
DEC-31-1998
JAN-01-1999
JUN-30-1999
55,350
26,872
32,049
0
38,967
165,492
33,065
15,928
183,705
39,135
0
0
0
9,902
133,156
143,058
72,997
72,997
44,914
44,914
0
0
0
9,661
3,400
6,261
0
0
0
6,261
.64
.62