

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1998

OR

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

COMMISSION FILE NUMBER 1-4298

COHU, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

95-1934119

(State or other jurisdiction of
Incorporation or Organization)

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

5755 KEARNY VILLA ROAD, SAN DIEGO, CALIFORNIA

92123

(Address of principal executive office)

(Zip Code)

Registrant's telephone number, including area code

619-277-6700

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

Yes No

As of June 30, 1998, the Registrant had 9,735,842 shares of its \$1.00 par value common stock outstanding.

COHU, INC.
INDEX
FORM 10-Q
JUNE 30, 1998

PART I FINANCIAL INFORMATION

Item 1.	Condensed Consolidated Balance Sheets June 30, 1998 (Unaudited) and December 31, 1997.....	3
	Condensed Consolidated Statements of Income (Unaudited) Three and Six Months Ended June 30, 1998 and 1997.....	4
	Condensed Consolidated Statements of Cash Flows (Unaudited) Six Months Ended June 30, 1998 and 1997.....	5
	Notes to Unaudited Condensed Consolidated Financial Statements.....	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	7

PART II OTHER INFORMATION

Item 4.	Submission of Matters to a Vote of Security Holders.....	11
Item 6.	Exhibits and Reports on Form 8-K.....	11
Signatures	12

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

ASSETS	JUNE 30, 1998 ----- (Unaudited)	DECEMBER 31, 1997 -----
Current assets:		
Cash and cash equivalents	\$ 48,862	\$ 39,736
Short-term investments	8,684	13,814
Accounts receivable, less allowance for doubtful accounts of \$1,737 in 1998 and \$1,787 in 1997	38,571	31,934
Inventories:		
Raw materials and purchased parts	21,936	21,224
Work in process	11,211	15,657
Finished goods	10,601	8,018
	-----	-----
	43,748	44,899
Deferred income taxes	9,669	9,669
Prepaid expenses	1,414	1,478
	-----	-----
Total current assets	150,948	141,530
Property, plant and equipment, at cost:		
Land and land improvements	2,501	2,501
Buildings and building improvements	12,067	11,906
Machinery and equipment	18,672	17,524
	-----	-----
	33,240	31,931
Less accumulated depreciation and amortization	14,114	12,982
	-----	-----
Net property, plant and equipment	19,126	18,949
Goodwill, net of accumulated amortization of \$893 in 1998 and \$815 in 1997	2,234	2,312
Other assets	90	101
	-----	-----
	\$ 172,398	\$ 162,892
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,523	\$ 16,166
Income taxes payable	4,844	3,421
Other accrued liabilities	15,577	15,742
	-----	-----
Total current liabilities	30,944	35,329
Accrued retiree medical benefits	1,048	1,004
Deferred income taxes	348	348
Stockholders' equity:		
Preferred stock	--	--
Common stock	9,736	9,549
Paid in excess of par	10,363	8,677
Retained earnings	119,959	107,985
	-----	-----
Total stockholders' equity	140,058	126,211
	-----	-----
	\$ 172,398	\$ 162,892
	=====	=====

See accompanying notes.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1997	1998	1997
	-----	-----	-----	-----
Net sales	\$ 55,202	\$ 44,642	\$ 111,893	\$ 79,404
Cost and expenses:				
Cost of sales	35,625	25,100	68,992	45,008
Research and development	5,905	4,264	11,306	7,525
Selling, general and administrative	6,239	5,169	12,415	9,986
	-----	-----	-----	-----
	47,769	34,533	92,713	62,519
	-----	-----	-----	-----
Income from operations	7,433	10,109	19,180	16,885
Interest income	780	717	1,549	1,455
	-----	-----	-----	-----
Income before income taxes	8,213	10,826	20,729	18,340
Provision for income taxes	2,900	3,900	7,200	6,700
	-----	-----	-----	-----
Net income	\$ 5,313	\$ 6,926	\$ 13,529	\$ 11,640
	=====	=====	=====	=====
Earnings per share:				
Basic	\$.55	\$.74	\$ 1.39	\$ 1.24
	=====	=====	=====	=====
Diluted	\$.53	\$.70	\$ 1.35	\$ 1.18
	=====	=====	=====	=====
Weighted average shares used in computing earnings per share:				
Basic	9,726	9,417	9,706	9,383
	=====	=====	=====	=====
Diluted	10,012	9,888	10,040	9,845
	=====	=====	=====	=====

See accompanying notes.

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

	SIX MONTHS ENDED	
	JUNE 30,	
	1998	1997
	-----	-----
Cash flows from operating activities:		
Net income	\$ 13,529	\$ 11,640
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	1,207	800
Purchase consideration to be paid with stock	361	262
Increase in accrued retiree medical benefits	44	44
Changes in assets and liabilities:		
Accounts receivable	(6,637)	(8,070)
Inventories	1,151	(9,478)
Prepaid expenses	64	59
Accounts payable	(5,643)	6,535
Income taxes payable	1,423	2,032
Other accrued liabilities	(526)	(656)
	-----	-----
Net cash provided from operating activities	4,973	3,168
Cash flows from investing activities:		
Purchases of short-term investments	(8,084)	(18,834)
Maturities of short-term investments	13,214	10,610
Purchases of property, plant, equipment and other assets	(1,295)	(1,697)
	-----	-----
Net cash provided by (used for) investing activities	3,835	(9,921)
Cash flows from financing activities:		
Issuance of stock, net	1,873	731
Cash dividends	(1,555)	(1,129)
	-----	-----
Net cash provided by (used for) financing activities	318	(398)
	-----	-----
Net increase (decrease) in cash and cash equivalents	9,126	(7,151)
Cash and cash equivalents at beginning of period	39,736	24,660
	-----	-----
Cash and cash equivalents at end of period	\$ 48,862	\$ 17,509
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 5,777	\$ 4,682

See accompanying notes.

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

1 - BASIS OF PRESENTATION

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

2 - EARNINGS PER SHARE

Earnings per share are computed in accordance with FASB Statement No. 128, Earnings per Share. Basic earnings per share are computed using the weighted average number of common shares outstanding during each period. Diluted earnings per share include the dilutive effect of common shares potentially issuable upon the exercise of stock options. Earnings per share data for the three and six months ended June 30, 1997 have been adjusted to conform to the provisions of FASB Statement No. 128. The following table reconciles the denominators used in computing basic and diluted earnings per share:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1997	1998	1997
	(in thousands)		(in thousands)	
Weighted average common shares outstanding	9,726	9,417	9,706	9,383
Effect of dilutive stock options	286	471	334	462
	10,012	9,888	10,040	9,845
	10,012	9,888	10,040	9,845

3 - STOCKHOLDERS' EQUITY

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

4 - NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

RESULTS OF OPERATIONS

SECOND QUARTER 1998 COMPARED TO SECOND QUARTER 1997

Net sales increased 24% to \$55.2 million in 1998 compared to net sales of \$44.6 million in 1997. Sales of semiconductor test handling equipment in 1998 increased 28% over the 1997 period and accounted for 83% of consolidated net sales in 1998 versus 80% in 1997. Sales of television cameras and other equipment decreased 7% while the combined sales of metal detection and microwave equipment increased 31%. Export sales accounted for 44% of net sales in the second quarter of 1998 compared to 52% for the year ended December 31, 1997.

Gross margin as a percentage of net sales declined to 35.5% in 1998 versus 43.8% in 1997 as a result of lower margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins decreased in 1998 primarily as a result of changes in product mix, sales price reductions and certain cost increases. During the second quarter of 1998 the Company shipped a significant number of its new Enterprise semiconductor test handlers. The gross margins realized on these sales were lower than the Company's established semiconductor handler products due 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 10.7% in 1998, compared to 9.6% in 1997, increasing in absolute dollars from \$4.3 million to \$5.9 million reflecting the Company's increased investment in new product development, particularly in the semiconductor equipment business. Selling, general and administrative expense as a percentage of net sales declined to 11.3% in 1998 from 11.6% in 1997 primarily as a result of the increase in business volume. Interest income was \$.8 million in 1998 and \$.7 million in 1997. The provision for income taxes expressed as a percentage of pre-tax income was 35.3% in the second quarter of 1998. As a result of the factors set forth above, net income decreased from \$6.9 million in 1997 to \$5.3 million in 1998.

SIX MONTHS ENDED JUNE 30, 1998 COMPARED TO SIX MONTHS ENDED JUNE 30, 1997

Net sales increased 41% to \$111.9 million in 1998 compared to net sales of \$79.4 million in 1997. Net sales during the first half of 1997 were negatively impacted by the semiconductor industry downturn that began in 1996. Sales of semiconductor test handling equipment in 1998 increased 51% over the 1997 period and accounted for 84% of consolidated net sales in 1998 versus 78% in 1997. Sales of television cameras and other equipment decreased 5% while the combined sales of metal detection and microwave equipment increased 27%. Export sales accounted for 45% of net sales in the first six months of 1998 compared to 52% for the year ended December 31, 1997.

Gross margin as a percentage of net sales declined to 38.3% in 1998 versus 43.3% in 1997 as a result of lower margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins decreased in 1998 primarily as a result of changes in product mix, sales price reductions and certain cost increases. During the second quarter of 1998 the Company shipped a significant number of its new Enterprise semiconductor test handlers. The gross margins realized on these sales were lower than the Company's established semiconductor handler products due to

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

SIX MONTHS ENDED JUNE 30, 1998 COMPARED TO SIX MONTHS ENDED JUNE 30, 1997 (CONT.) 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 10.1% in 1998, compared to 9.5% in 1997, increasing in absolute dollars from \$7.5 million to \$11.3 million reflecting the Company's increased investment in new product development, particularly in the semiconductor equipment business. Selling, general and administrative expense as a percentage of net sales declined to 11.1% in 1998 from 12.6% in 1997 primarily as a result of the increase in business volume. Interest income was \$1.5 million in 1998 and 1997. The provision for income taxes expressed as a percentage of pre-tax income was 34.7% in the first six months of 1998. As a result of the factors set forth above, net income increased from \$11.6 million in 1997 to \$13.5 million in 1998.

LIQUIDITY AND CAPITAL RESOURCES

The Company's net cash flows generated from operating activities in the first six months of 1998 totaled \$5 million. The major components of cash flows from operating activities were net income of \$13.5 million an increase in income taxes payable of \$1.4 million and a decrease in inventories of \$1.2 million offset by an increase in accounts receivable of \$6.6 million and decreases in accounts payable and other accrued liabilities totaling \$6.2 million. Net cash provided by investing activities was \$3.8 million resulting from maturities of short-term investments, less purchases, offset by purchases of property, plant and equipment and other assets of \$1.3 million. Net cash provided by financing activities was \$.3 million. Cash provided by financing activities included \$1.9 million received from the issuance of stock under stock option and purchase plans offset by \$1.6 million for the payment of dividends. The Company had \$10 million available under its new bank line of credit and working capital of \$120 million at June 30, 1998. It is anticipated that present working capital and available borrowings under the line of credit will be sufficient to meet the Company's operating requirements for the next twelve months and the remaining anticipated capital expenditures for 1998 of approximately \$3 million.

BUSINESS RISKS AND UNCERTAINTIES

The Company's operating results are substantially dependent on the semiconductor test handling equipment business conducted through its Delta Design and Daymarc subsidiaries. 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, 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 downturns such as that experienced in 1996 and currently in 1998. Reductions in capital equipment investment by semiconductor manufacturers will adversely affect the Company's results of operations.

The Company's order backlog declined to \$40.6 million at June 30, 1998 from \$53.4 million at March 31, 1998. This reduction in backlog is primarily related to the Company's semiconductor equipment business. The decline in the Company's backlog and recent announcements by certain semiconductor and semiconductor equipment manufacturers indicate there has been a slowdown in demand for certain semiconductors and related equipment. The projected length and severity of this slowdown is unknown at this time. In addition, continued DRAM price declines have negatively impacted the profitability of DRAM manufacturers which may impact future capital equipment purchases. These and possible other factors are expected to adversely affect the Company's operating results in the second half of 1998.

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

BUSINESS RISKS AND UNCERTAINTIES (CONT.)

During this period of uncertainty in the semiconductor equipment industry the Company will attempt to keep its production capacity, labor force and other aspects of its cost structure in line with expected demand. The Company has reduced the size of its work force and it is likely that the Company will have further reductions. Cost reduction programs may have a temporary negative impact on the Company's operations and operating results. Furthermore, no assurance can be made that such cost reduction programs will be implemented successfully.

Semiconductor equipment and processes are subject to rapid technological change. The Company believes that its future success will depend in part on its ability to enhance existing products and develop new products with improved performance capabilities. The Company expects to continue to invest heavily in research and development and must manage product transitions successfully as introductions of new products could adversely impact sales or margins of existing products. The design, development, manufacture and commercial introduction of new semiconductor test handling equipment is a complex process that involves a number of risks and uncertainties. These risks include potential problems in meeting customer performance requirements, integration of the test handler with other suppliers' equipment and the customers' manufacturing processes and the ability of the equipment to satisfy the semiconductor industry's constantly evolving needs and achieve commercial acceptance at prices that produce satisfactory profit margins. The Company has devoted significant resources to the development, introduction and volume production of two new semiconductor test handler products that were introduced in the second quarter of 1998. In the past, the Company has experienced delays in the introduction of new semiconductor test handlers and difficulties in the early stages of manufacturing and volume production of such products. The Company has incurred similar delays and difficulties with the two test handlers introduced in 1998. In addition, after sale support and warranty costs are typically greater with new test handlers than with established products. There can be no assurance that future technologies, processes and product developments will not render the Company's current or future product offerings obsolete or that the Company will be able to develop and introduce new products or enhancements to its existing products in a timely manner to satisfy customer needs or achieve market acceptance. Furthermore, there is no assurance that the Company will be able to convert new test handlers into production on a timely basis and realize acceptable profit margins on such products.

The semiconductor equipment industry is intensely competitive and the Company faces substantial competition from numerous companies throughout the world. Some of these competitors have substantially greater financial, engineering, manufacturing and customer support capabilities and more extensive product offerings than the Company. In addition, there are smaller, emerging semiconductor equipment companies that provide or may provide innovative technology incorporated in products that may compete favorably against those of the Company. The Company expects its competitors to continue to improve the design and performance of their current products and to introduce new products with improved performance capabilities. Failure to introduce new products in a timely manner, the introduction by competitors of products with perceived or actual advantages or disputes over rights of the Company or its competitors to use certain intellectual property or technology could result in a loss of the Company's competitive position and reduced sales or margins on existing products.

As is common in the semiconductor equipment industry, the Company relies on a limited number of customers for a substantial percentage of its net sales. In 1997, three customers of the semiconductor equipment business accounted for 42% of the Company's net sales. The loss of or a significant reduction in

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

BUSINESS RISKS AND UNCERTAINTIES (CONT.)

orders by these or other significant customers would adversely impact the Company's results of operations. Furthermore, the concentration of the Company's revenues in a limited number of large customers may cause significant fluctuations in the Company's future annual and quarterly operating results.

In 1997, 52% of the Company's total net sales were exported to foreign countries, including 60% of the sales in the semiconductor equipment segment. The majority of the Company's export sales are made to destinations in Asia. Currency fluctuations and instability in global financial 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 customers.

Certain computer systems used by the Company may not properly recognize a date using "00" as the year 2000 (Year 2000). This could result in system/program failures or logic errors that would disrupt normal business activities. The Company is in the process of identifying and modifying or replacing computer systems that potentially subject the Company to risk. In addition, certain software programs used to operate equipment manufactured and sold by the Company may not be Year 2000 compliant. The Company is currently evaluating such software programs to determine if they are Year 2000 ready, and is notifying customers that plans are being developed to address this issue. The Company has initiated communications with suppliers to raise their awareness of the Year 2000 issue and to determine the extent to which the Company is vulnerable to their failure to correct their own Year 2000 issues. The Company cannot reasonably predict the degree to which its suppliers will be successful in limiting the potential negative effects of the Year 2000 date-recognition problem. If computer systems used by the Company or its suppliers, or the software applications used in equipment manufactured and sold by the Company, fail or experience significant difficulties, the Company could become involved in disputes and the Company's results of operations could be materially affected. At this time, the Company cannot reasonably estimate the cost of its Year 2000 compliance program.

Due to these and other factors, historical results may not be indicative of results of operations for any future period. In addition, certain matters discussed above are forward-looking statements that are subject to the risks and uncertainties noted herein and the other risks and uncertainties listed from time to time in the Company's filings with the Securities and Exchange Commission, including but not limited to the 1997 Annual Report on Form 10-K, that could cause actual results to differ materially from those projected or forecasted. The Company undertakes no obligation to update the information, including the forward-looking statements, in this Form 10-Q.

PART II OTHER INFORMATION

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

The Annual Meeting of Stockholders was held on May 12, 1998. At the meeting the following directors were elected:

DIRECTOR -----	Number of Common Shares Voted -----	
	For -----	Withhold Authority -----
James W. Barnes	8,797,147	70,259
William S. Ivans	8,793,408	73,998

The directors continuing in office until 1999 or 2000 are Harry L. Casari, Frank W. Davis, Gene E. Leary and Charles A. Schwan.

In addition, the stockholders approved the following proposals:

PROPOSAL

	Number of Common Shares Voted -----		
	For -----	Against -----	Abstain -----
To approve the Cohu, Inc. 1998 Stock Option Plan	6,768,430	1,969,180	129,796
To approve the amendment to the Cohu, Inc. Amended and Restated Certificate of Incorporation to increase authorized shares of Common Stock to 40,000,000	8,464,830	343,433	59,143

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

(a) Exhibits:

- 3.1(a) - Provisions of the Amended and Restated Certificate of Incorporation of Cohu, Inc.
- 10.1 - Credit Agreement dated June 15, 1998 between Cohu, Inc. and Bank of America National Trust and Savings Association
- 10.2 - Employment Agreement between Cohu, Inc. and James A. Donahue
- 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, 1998.

SIGNATURES

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

COHU, INC.

(Registrant)

Date: July 24, 1998

/s/ Charles A. Schwan

Charles A. Schwan
President & Chief Executive Officer

Date: July 24, 1998

/s/ John H. Allen

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is 41,000,000 shares, of which 1,000,000 shares

shall constitute Preferred Stock having a par value of \$1.00 per share and 40,000,000 shares shall constitute Common Stock having a par value of \$1.00 per share.

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

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

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

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

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

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

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

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

EIGHTH: The corporation is to have perpetual existence.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Borrower agrees:

- (a) 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.
- (b) if there is a default under this Agreement, to immediately prepay and make the Bank whole for any outstanding letters of credit.
- (c) 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.
- (d) to sign the Bank's form Application and Agreement for Commercial Letter of Credit or Application and Agreement for Standby Letter of Credit.
- (e) 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.
- (f) to allow the Bank to automatically charge its checking account for applicable fees, discounts, and other charges.

2. EXPENSES

2.1 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.

2.2 REIMBURSEMENT COSTS. 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.

3. DISBURSEMENTS, PAYMENTS AND COSTS

3.1 REQUESTS FOR CREDIT. Each request for an extension of credit will be made in writing in a manner acceptable to the Bank, or by another means acceptable to the Bank.

3.2 DISBURSEMENTS AND PAYMENTS. Each disbursement by the Bank and each payment by the Borrower will be:

- (a) made at the Bank's branch (or other location) selected by the Bank from time to time;
- (b) made for the account of the Bank's branch selected by the Bank from time to time;
- (c) made in immediately available funds, or such other type of funds selected by the Bank;
- (d) 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.

3.3 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 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 the Borrower's account number 14505-50312, or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower.

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

3.4 DIRECT DEBIT.

(a) The Borrower agrees that interest and principal payments and any fees will be deducted automatically on the due date from the Borrower's account number 14505-50312, or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower.

(b) The Bank will debit the account on the dates the payments become due. If a due date does not fall on a banking day, the Bank will debit the account on the first banking day following the due date.

(c) The Borrower will maintain sufficient funds in the account on the dates the Bank enters debits authorized by this Agreement. If there are insufficient funds in the account on the date the Bank enters any debit authorized by this Agreement, the debit will be reversed.

3.5 BANKING DAYS. Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday or a Sunday on which the Bank is open for business in California. 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.

3.6 TAXES.

(a) If any payments to the Bank under this Agreement are made from outside the United States, the Borrower will not deduct any foreign taxes from any payments it makes to the Bank. If any such taxes are imposed on any payments made by the Borrower (including payments under this paragraph), the Borrower will pay the taxes and will also pay to the Bank, at the time interest is paid, any additional amount which the Bank specifies as necessary to preserve the after-tax yield the Bank would have received if such taxes had not been imposed. The Borrower will confirm that it has paid the taxes by giving the Bank official tax receipts (or notarized copies) within 30 days after the due date.

(b) Payments made by the Borrower to the Bank will be made without deduction of United States withholding or similar taxes. If the Borrower is required to pay U.S. withholding taxes, the Borrower will pay such taxes in addition to the amounts due to the Bank under this Agreement. If the Borrower fails to make such tax payments when due, the Borrower indemnifies the Bank against any liability for such taxes, as well as for any related interest, expenses, additions to tax, or penalties asserted against or suffered by the Bank with respect to such taxes.

3.7 ADDITIONAL COSTS. The Borrower will pay the Bank, on demand, for the Bank's costs or losses arising from any statute or regulation, or any request or requirement of a regulatory agency which is applicable to all national banks or a class of all national banks. The costs and losses will be allocated to the loan in a manner determined by the Bank, using any reasonable method. The costs include the following:

(a) any reserve or deposit requirements; and

(b) any capital requirements relating to the Bank's assets and commitments for credit.

3.8 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. Instalments of principal which are not paid when due under this Agreement shall continue to bear interest until paid.

3.9 DEFAULT RATE. Upon the occurrence and during the continuation of any default under this Agreement, principal amounts outstanding under this Agreement will at the option of the Bank bear interest at a rate which is 2.00 percentage points higher than the rate of interest otherwise provided under this Agreement. This will not constitute a waiver of any default.

3.10 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 Reference Rate plus 1.00 percentage point. This may result in compounding of interest.

4. CONDITIONS

The Bank must receive the following items, in form and content acceptable to the Bank, before it is required to extend any credit to the Borrower under this Agreement:

4.1 AUTHORIZATIONS. Evidence that the execution, delivery and performance by the Borrower (and any guarantor) of this Agreement and any instrument or agreement required under this Agreement have been duly authorized.

4.2 GOVERNING DOCUMENTS. A copy of the Borrower's articles of incorporation.

4.3 OTHER ITEMS. Any other items that the Bank reasonably requires.

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 renewed representation.

5.1 ORGANIZATION OF BORROWER. The Borrower is a corporation duly formed and existing under the laws of the state 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:

(a) sufficiently complete to give the Bank accurate knowledge of the Borrower's (and any guarantor's) financial condition, including all material contingent liabilities.

(b) in compliance with all government regulations that apply.

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 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.

5.10 INCOME TAX MATTERS. The Borrower is not subject to limitations on its entitlement to deduct interest for federal income tax purposes under Section 163(j) of the Internal Revenue Code of 1986 (known as the "earnings stripping" provisions) and has no knowledge of any pending assessments or adjustments of its income tax for any year.

5.11 NO TAX AVOIDANCE PLAN. The Borrower's obtaining of credit from the Bank under this Agreement does not have as a principal purpose the avoidance of U.S. withholding taxes.

5.12 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.

5.13 ERISA PLANS.

(a) Each Plan (other than a multiemployer plan) is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law. Each Plan has received a favorable determination letter from the IRS and to the best knowledge of the Borrower, nothing has occurred which would cause the loss of such qualification. The Borrower has fulfilled its obligations, if any, under the minimum funding standards of ERISA and the Code with respect to each Plan, and has not incurred any liability with respect to any Plan under Title IV of ERISA.

(b) There are no claims, lawsuits or actions (including by any governmental authority), and there has been no prohibited transaction or violation of the fiduciary responsibility rules, with respect to any Plan which has resulted or could reasonably be expected to result in a material adverse effect.

(c) With respect to any Plan subject to Title IV of ERISA:

(i) No reportable event has occurred under Section 4043(c) of ERISA for which the PBGC requires 30 day notice.

(ii) No action by the Borrower or any ERISA Affiliate to terminate or withdraw from any Plan has been taken and no notice of intent to terminate a Plan has been filed under Section 4041 of ERISA.

(iii) No termination proceeding has been commenced with respect to a Plan under Section 4042 of ERISA, and no event has occurred or condition exists which might constitute grounds for the commencement of such a proceeding.

(d) The following terms have the meanings indicated for purposes of this Agreement:

(i) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(ii) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

(iii) "ERISA Affiliate" means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code.

(iv) "PBGC" means the Pension Benefit Guaranty Corporation.

(v) "Plan" means a pension, profit-sharing, or stock bonus plan intended to qualify under Section 401(a) of the Code, maintained or contributed to by the Borrower or any ERISA Affiliate, including any multiemployer plan within the meaning of Section 4001(a) (3) of ERISA.

5.14 YEAR 2000 COMPLIANCE. The Borrower has implemented a comprehensive program to address the "year 2000 problem" (that is, the risk that computer applications may not be able to properly perform date-sensitive functions after December 31, 1999) and expects to resolve on a timely basis any material year 2000 problem. The Borrower has also made inquiry of each supplier, vendor and customer of the Borrower that is of material importance to the financial well-being of such Borrower with respect to the "year 2000 problem". On the basis of that inquiry, the Borrower believes that each such supplier, vendor and customer of the Borrower will resolve any material year 2000 problem on a timely basis.

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. To use the proceeds of the credit only for short term working capital needs.

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 90 days of the Borrower's fiscal year end, the Borrower's annual financial statements. These financial statements must be audited (with an opinion not qualified in any manner, including not qualified due to possible failure to take all appropriate steps to successfully address year 2000 system issues) by a Certified Public Accountant ("CPA") acceptable to the Bank. The statements shall be prepared on a consolidated basis.
- (b) Within 45 days of the period's end, the Borrower's quarterly financial statements. These financial statements may be Borrower prepared. The statements shall be prepared on a consolidated and consolidating basis.
- (c) Copies of the Borrower's Form 10-K Annual Report within 90 days of the Borrower's fiscal year end.
- (d) Copies of the Borrower's Form 10-Q Quarterly Report within 60 days after the end of each quarterly accounting period.

6.3 QUICK RATIO. To maintain on a consolidated basis a ratio of quick assets to current liabilities of at least 1.5:1.0 for each quarterly accounting period. "Quick assets" means cash, short-term cash investments, net trade receivables and marketable securities not classified as long-term investments. "Current liabilities" shall include (a) all obligations classified as current liabilities under generally accepted accounting principles, plus (b) all principal amounts outstanding under revolving lines of credit, whether classified as current or long-term, which are not already included under (a) above.

6.4 TANGIBLE NET WORTH. To maintain on a consolidated basis tangible net worth equal to at least One Hundred Twenty Million Dollars (\$120,000,000) for each annual accounting period. "Tangible net worth" means the gross book value of the Borrower's assets (excluding goodwill, patents, trademarks, trade names, organization expense, treasury stock, unamortized debt discount and expense, capitalized or deferred research and development costs, deferred marketing expenses, deferred receivables, and other like intangibles) less total liabilities, including but not limited to accrued and deferred income taxes, and any reserves against assets.

6.5 TOTAL LIABILITIES TO TANGIBLE NET WORTH RATIO. To maintain on a consolidated basis a ratio of total liabilities to tangible net worth not exceeding 0.60:1.0 for each quarterly accounting period. "Total liabilities" means the sum of current liabilities plus long term liabilities.

6.6 OTHER DEBTS. Borrower or any wholly owned subsidiary not to have outstanding or incur any direct or contingent liabilities (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) Additional debts and lease obligations for business purposes which do not exceed a total principal amount of Two Hundred Fifty Thousand Dollars (\$250,000) outstanding at any one time.

6.7 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) Deeds of trust and security agreements in favor of the Bank.
- (b) Liens for taxes not yet due.
- (c) Additional liens which secure obligations in a total principal amount not exceeding Two Hundred Fifty Thousand Dollars (\$250,000).

6.8 CAPITAL EXPENDITURES. Not to spend (including the total amount of any capital leases) more than Seven Million Five Hundred Thousand (\$7,500,000) in any single fiscal year to acquire fixed or capital assets.

6.9 NOTICES TO BANK. To promptly notify the Bank in writing of:

- (a) any lawsuit over Five Million Dollars (\$5,000,000) against the Borrower (or any guarantor).
- (b) any substantial dispute between the Borrower (or any guarantor) and any government authority.
- (c) any failure to comply with this Agreement.
- (d) any material adverse change in the Borrower's (or any guarantor'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.

6.10 BOOKS AND RECORDS. To maintain adequate books and records.

6.11 AUDITS. To allow the Bank and its agents to inspect the Borrower's properties (including taking and removing samples for environmental testing) 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.

6.12 COMPLIANCE WITH LAWS. To comply with the laws (including any fictitious name statute), regulations, and orders of any government body with authority over the Borrower's business.

6.13 PRESERVATION OF RIGHTS. To maintain and preserve all rights, privileges, and franchises the Borrower now has.

6.14 MAINTENANCE OF PROPERTIES. To make any repairs, renewals, or replacements to keep the Borrower's properties in good working condition.

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

6.16 GENERAL BUSINESS INSURANCE. To maintain insurance as is usual for the business it is in.

6.17 ADDITIONAL NEGATIVE COVENANTS. Not to, without the Bank's written consent:

- (a) engage in any business activities substantially different from the Borrower's present business.
- (b) liquidate or dissolve the Borrower's business.
- (c) 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.
- (d) sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.
- (e) sell, assign, lease, transfer or otherwise dispose of all or a substantial part of the Borrower's business or the Borrower's assets.
- (f) enter into any sale and leaseback agreement covering any of its fixed or capital assets.
- (g) acquire or purchase a business or its assets for a consideration, including assumption of debt, in excess of Twenty Million Dollars (\$20,000,000) in the aggregate.
- (h) voluntarily suspend its business for more than 5 days in any 30 day period.

6.18 ERISA PLANS. With respect to a Plan subject to Title IV of ERISA, to give prompt written notice to the Bank of:

- (a) The occurrence of any reportable event under Section 4043(c) of ERISA for which the PBGC requires 30 day notice.
- (b) Any action by the Borrower or any ERISA Affiliate to terminate or withdraw from a Plan or the filing of any notice of intent to terminate under Section 4041 of ERISA.
- (c) The commencement of any proceeding with respect to a Plan under Section 4042 of ERISA.

7. HAZARDOUS WASTE INDEMNIFICATION

The Borrower will indemnify and hold harmless the Bank from any loss or liability directly or indirectly arising 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. "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

If any of the following events 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 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 FALSE INFORMATION. The Borrower (or any guarantor) has given the Bank false or misleading information or representations.

8.3 BANKRUPTCY. The Borrower (or any guarantor) files a bankruptcy petition, a bankruptcy petition is filed against the Borrower (or any guarantor) or the Borrower (or any guarantor) makes a general assignment for the benefit of creditors.

8.4 RECEIVERS. A receiver or similar official is appointed for the Borrower's (or any guarantor's) business, or the business is terminated.

8.5 LAWSUITS. Any lawsuit or lawsuits are filed on behalf of one or more trade creditors against the Borrower in an aggregate amount of Five Million Dollars (\$5,000,000) or more in excess of any insurance coverage.

8.6 JUDGMENTS. Any judgments or arbitration awards are entered against the Borrower (or any guarantor), or the Borrower (or any guarantor) enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of Two Million Dollars (\$2,000,000) or more in excess of any insurance coverage.

8.7 GOVERNMENT ACTION. Any government authority takes action that the Bank believes materially adversely affects the Borrower's (or any guarantor's) financial condition or ability to repay.

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

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

8.10 DEFAULT UNDER RELATED DOCUMENTS. Any other document required by this Agreement is violated or no longer in effect.

8.11 OTHER BANK AGREEMENTS. The Borrower (or any guarantor) fails to meet the conditions of, or fails to perform any obligation under any other agreement the Borrower (or any guarantor) has with the Bank or any affiliate of the Bank.

8.12 ERISA PLANS. The occurrence of any one or more of the following events with respect to a Plan 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.

8.13 OTHER BREACH UNDER AGREEMENT. The Borrower fails to meet the conditions of, or fails to perform any obligation under, any term of this Agreement not specifically referred to in this Article. This includes any failure or anticipated failure by the Borrower to comply with any 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 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; provided that such actual or potential participants or assignees shall agree to treat all financial information exchanged as confidential. 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.

- (a) This paragraph concerns the resolution of any controversies or claims between the Borrower and the Bank, including but not limited to those that arise from:
 - (i) This Agreement (including any renewals, extensions or modifications of this Agreement);
 - (ii) Any document, agreement or procedure related to or delivered in connection with this Agreement;
 - (iii) Any violation of this Agreement; or
 - (iv) Any claims for damages resulting from any business conducted between the Borrower and the Bank, including claims for injury to persons, property or business interests (torts).
- (b) At the request of the Borrower or the Bank, any such controversies or claims will be settled by arbitration in accordance with the United States Arbitration Act. The United States Arbitration Act will apply even though this Agreement provides that it is governed by California law.

- (c) Arbitration proceedings will be administered by the American Arbitration Association and will be subject to its commercial rules of arbitration.
- (d) For purposes of the application of the statute of limitations, the filing of an arbitration pursuant to this paragraph is the equivalent of the filing of a lawsuit, and any claim or controversy which may be arbitrated under this paragraph is subject to any applicable statute of limitations. The arbitrators will have the authority to decide whether any such claim or controversy is barred by the statute of limitations and, if so, to dismiss the arbitration on that basis.
- (e) If there is a dispute as to whether an issue is arbitrable, the arbitrators will have the authority to resolve any such dispute.
- (f) The decision that results from an arbitration proceeding may be submitted to any authorized court of law to be confirmed and enforced.
- (g) The procedure described above will not apply if the controversy or claim, at the time of the proposed submission to arbitration, arises from or relates to an obligation to the Bank secured by real property located in California. In this case, both the Borrower and the Bank must consent to submission of the claim or controversy to arbitration. If both parties do not consent to arbitration, the controversy or claim will be settled as follows:
- (i) The Borrower and the Bank will designate a referee (or a panel of referees) selected under the auspices of the American Arbitration Association in the same manner as arbitrators are selected in Association-sponsored proceedings;
 - (ii) The designated referee (or the panel of referees) will be appointed by a court as provided in California Code of Civil Procedure Section 638 and the following related sections;
 - (iii) The referee (or the presiding referee of the panel) will be an active attorney or a retired judge; and
 - (iv) The award that results from the decision of the referee (or the panel) 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) This provision does not limit the right of the Borrower or the Bank to:
- (i) exercise self-help remedies such as setoff;
 - (ii) foreclose against or sell any real or personal property collateral; or
 - (iii) act in a court of law, before, during or after the arbitration proceeding to obtain:
 - (A) an interim remedy; and/or
 - (B) additional or supplementary remedies.
- (i) The pursuit of or a successful action for interim, additional or supplementary remedies, or the filing of a court action, does not constitute a waiver of the right of the Borrower or the Bank, including the suing party, to submit the controversy or claim to arbitration if the other party contests the lawsuit. However, if the controversy or claim arises from or relates to an obligation to the Bank which is secured by real property located in California at the time of the proposed submission to arbitration, this right is limited according to the provision above requiring the consent of both the Borrower and the Bank to seek resolution through arbitration.
- (j) If the Bank forecloses against any real property securing this Agreement, the Bank has the option to exercise the power of sale under the deed of trust or mortgage, or to proceed by judicial foreclosure.

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 ADMINISTRATION COSTS. The Borrower shall pay the Bank for all reasonable costs incurred by the Bank in connection with administering this Agreement.

9.7 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 including 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 in-house counsel.

9.8 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; and
- (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.

9.9 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.

9.10 NOTICES. All notices required under this Agreement shall be personally delivered or sent by first class mail, postage prepaid, to the addresses on the signature page of this Agreement, or to such other addresses as the Bank and the Borrower may specify from time to time in writing.

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

9.12 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.

9.13 PRIOR AGREEMENT SUPERSEDED. This Agreement supersedes the Business Loan Agreement entered into as of June 11, 1994, 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.

[BANK OF AMERICA LOGO]

BANK OF AMERICA
NATIONAL TRUST AND SAVINGS ASSOCIATION

COHU, INC.

X /s/ Paul M. Tuomainen, Jr.

BY: PAUL M. TUOMAINEN, JR.
TITLE: VICE PRESIDENT

X /s/ John H. Allen

BY: JOHN H. ALLEN
TITLE: VICE PRESIDENT - FINANCE
AND CHIEF FINANCIAL OFFICER

ADDRESS WHERE NOTICES TO THE BANK
ARE TO BE SENT:

450 B Street, Suite 100
San Diego, California 92101

ADDRESS WHERE NOTICES TO THE BORROWER
ARE TO BE SENT:

5755 Kearny Villa Road
San Diego, California 92123

TERMINATION AGREEMENT

This Termination Agreement is executed July 17, 1997 between COHU, INC., a Delaware corporation ("Company") and James A. Donahue ("Executive") in light of the following facts:

A. Executive is a key and critically important member of the management of Company upon whose continuing services Company is and will depend for its future growth and prosperity.

B. Company desires to assure itself of the uninterrupted and unimpaired performance of services by Executive in the future. In particular, Company desires that there will be no interference with those services or Executive's loyalty to Company which result from any actual or proposed change of control of Company. Company believes that the interest of Company and its shareholders will best be served by providing Executive with economic assurances which will relieve him of worry about his economic interests in the event of any proposed change of control and thereby permit him to devote his uninterrupted attention to the performance of his duties to Company.

NOW, THEREFORE, IT IS AGREED:

1. "Event" Defined. The term "Event" as used in this Agreement shall mean any one or a combination of the following:

a. A sale by Company of all or substantially all of its assets, whether for money, securities or other consideration.

b. A merger or consolidation of Company with or into any other corporation or business entity (excepting only a wholly owned subsidiary of Company) without regard to whether Company or other party to such transaction is the surviving corporation.

c. The acquisition of beneficial ownership of a majority of the outstanding voting stock of Company by any person or entity or affiliated group of persons and/or entities without regard to whether such stock is held directly or indirectly.

d. A change in the identities of a majority of the directors of Company occurring within a period of thirty (30) consecutive months resulting in whole or in part from the election at one or more meetings of shareholders of persons who are not listed in the Company's proxy statement as management nominees.

e. Any other agreement, happening or device which has substantially the same effect on control of Company as any of the foregoing.

2. "Termination" Defined. The term "Termination" as used in this Agreement shall mean any one or a combination of the following:

a. The discharge of Executive by Company or its successor in interest as the operator of all or substantially all of the business assets of Company for any reason whatsoever, excepting only discharge by reason of the following:

(i) Death of Executive;

(ii) The mental or physical disability of Executive continuing for a period exceeding nine months, which prevents Executive from performing a major portion of his duties;

(iii) For cause consisting of the commission by Executive of a criminal act related to the performance of his duties, the furnishing of proprietary confidential information of Company to a competitor or a potential competitor except in the bona fide belief that such action was for the benefit and best interests of Company;

(iv) Habitual intoxication by alcohol or drugs during working hours;

(v) Habitual neglect of duties not corrected following written notice from Company specifying details thereof;

(vi) Required retirement of Executive at or after the Company's normal retirement age for senior executives, in accordance with established policies applied on a nondiscriminating basis.

b. Resignation of Executive following the occurrence of one or more of the following:

(i) Relocation of the principal place at which Executive's duties are performed to a location outside the County of San Diego, California;

(ii) A reduction in Executive's compensation;

(iii) A change in the benefits or perquisites provided to Executive which is deemed materially adverse by Executive;

(iv) A change in Executive's responsibilities, authorities or functions which is deemed materially adverse by Executive;

(v) A change in Executive's work conditions which is deemed materially adverse by Executive.

3. Payment. In the event that a termination occurs concurrently with or within five (5) years following an Event, forthwith upon such Termination occurring, Company or its successor in interest shall pay to Executive a sum equal to the largest sum of money which would not result in there being an "Excess Parachute Payment" as defined in Section 280G of the Internal Revenue Code as amended to the date of this Agreement. This payment shall be in addition to any and all other benefits to which Executive may be entitled in connection with such termination, including but not limited to, payment for accrued and unused vacation or sick pay.

4. Consideration. This contract is for the purpose of inducing Executive to continue his employment with Company and is in consideration of the services rendered by Executive to Company from and after the date of this Agreement, which consideration Company hereby acknowledges is fair and adequate.

5. Complete Agreement. This constitutes the complete agreement between the parties with respect to its subject matter. It shall not be amended or rescinded except by a further written agreement executed by both parties.

6. Successors. This contract shall inure to the benefit of Executive, his heirs, personal representatives and assigns and shall bind Company and its successors.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written, in accordance with a resolution made and instructions given by the Board of Directors of Cohu, Inc. at a meeting held July 17, 1997.

COHU, INC.

By: /s/ Charles A. Schwan

Title: President and Chief Executive Officer

EXECUTIVE

/s/ James A. Donahue

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

1,000

6-MOS	
	DEC-31-1997
	JAN-01-1998
	JUN-30-1998
	48,862
	8,684
	38,571
	0
	43,748
	150,948
	33,240
	14,114
	172,398
30,944	0
0	0
	9,736
	130,322
172,398	111,893
	111,893
	68,992
	68,992
	0
	0
	0
	20,729
	7,200
13,529	0
	0
	0
	0
	13,529
	1.39
	1.35