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 MARCH 31, 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)

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 [X] No [ ]

As of March 31, 1999, the Registrant had 9,827,733 shares of its $1.00 par value common stock outstanding.

COHU, INC.
INDEX
FORM 10-Q
MARCH 31, 1999

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

ASSETS	MARCH 31, 1999 (Unaudited)	DECEMBER 31, 1998
Current assets:		
Cash and cash equivalents	$ 60,574	$ 74,446
Short-term investments	26,420	12,257
Accounts receivable, less allowance for doubtful accounts of $1,243 in 1999 and $1,338 in 1998	18,356	18,800
Inventories:		
Raw materials and purchased parts	13,623	12,977
Work in process	10,404	5,927
Finished goods	4,019	6,973
	28,046	25,877
Deferred income taxes	10,477	10,477
Prepaid expenses	1,489	1,541
Total current assets	145,362	143,398
Property, plant and equipment, at cost:		
Land and land improvements	2,501	2,501
Buildings and building improvements	12,149	12,102
Machinery and equipment	18,018	17,801
	32,668	32,404
Less accumulated depreciation and amortization	15,393	14,791
Net property, plant and equipment	17,275	17,613
Goodwill, net of accumulated amortization of $2,044 in 1999 and $1,972 in 1998	1,083	1,155
Other assets	64	65
	$163,784	$162,231

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,021	$ 3,016
Income taxes payable	3,109	3,070
Other accrued liabilities	12,850	17,169
Total current liabilities	23,980	23,255
Accrued retiree medical benefits	999	993
Deferred income taxes	520	520
Stockholders' equity:		
Preferred stock	--	--
Common stock	9,828	9,779
Paid in excess of par	11,435	11,169
Retained earnings	117,022	116,515
Total stockholders' equity	138,285	137,463
	$163,784	$162,231

See accompanying notes

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

	THREE MONTHS ENDED MARCH 31, 1999	1998
Net sales	$29,526	$56,691
Cost and expenses:		
Cost of sales	19,164	33,367
Research and development	4,297	5,401
Selling, general and administrative	5,087	6,176
	28,548	44,944
Income from operations	978	11,747
Interest income	1,113	769
Income before income taxes	2,091	12,516
Provision for income taxes	700	4,300
Net income	$ 1,391	$ 8,216
Earnings per share:		
Basic	$ .14	$ .85
Diluted	$ .14	$ .82
Weighted average shares used in computing earnings per share:		
Basic	9,807	9,687
Diluted	10,059	10,067

See accompanying notes.

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

	THREE MONTHS ENDED MARCH 31, 1999	THREE MONTHS ENDED MARCH 31, 1998
Cash flows from operating activities:		
Net income	$ 1,391	$ 8,216
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	671	561
Purchase consideration to be paid with stock	--	286
Increase in accrued retiree medical benefits	6	23
Changes in assets and liabilities:		
Accounts receivable	444	(3,532)
Inventories	(2,169)	(4,448)
Prepaid expenses	52	116
Accounts payable	5,005	(1,903)
Income taxes payable	39	3,277
Other accrued liabilities	(4,319)	(1,903)
Net cash provided from operating activities	1,120	693
Cash flows from investing activities:		
Purchases of short-term investments	(16,163)	(4,000)
Maturities of short-term investments	2,000	12,815
Purchases of property, plant, equipment and other assets	(260)	(839)
Net cash provided by (used for) investing activities	(14,423)	7,976
Cash flows from financing activities:		
Issuance of stock, net	315	1,380
Cash dividends	(884)	(777)
Net cash provided by (used for) financing activities	(569)	603
Net increase (decrease) in cash and cash equivalents	(13,872)	9,272
Cash and cash equivalents at beginning of period	74,446	39,736
Cash and cash equivalents at end of period	$ 60,574	$ 49,008
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 661	$ 1,228

See accompanying notes.

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 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 months ended March 31, 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 March 31, 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 months ended March 31, 1999, options to purchase approximately 111,000 shares of common stock at an average price of $33.93 were excluded from the computation, and for the three months ended March 31, 1998, options to purchase approximately 24,000 shares of common stock at an average price of $43.50 were excluded from the computation. The following table reconciles the denominators used in computing basic and diluted earnings per share:

	1999	1998
	(in thousands)	
Weighted average common shares outstanding	9,807	9,687
Effect of dilutive stock options	252	380
	10,059	10,067

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 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 either period.

	Three months ended March 31, 1999	Three months ended March 31, 1998
	(in thousands)	
Net sales:		
Semiconductor equipment	$ 22,374	$ 47,613
Television cameras	4,229	5,396
Net sales for reportable segments	26,603	53,009
All other	2,923	3,682
Total consolidated net sales	$ 29,526	$ 56,691
Operating profit (loss):		
Semiconductor equipment	$ 1,458	$ 11,205
Television cameras	174	608
Operating profit for reportable segments	1,632	11,813
All other	(262)	232
Total consolidated operating profit	1,370	12,045
Other unallocated amounts:		
Corporate expenses	(320)	(259)
Interest income	1,113	769
Goodwill amortization	(72)	(39)
Income before income taxes	$ 2,091	$ 12,516

	March 31, 1999	December 31, 1998
	(in thousands)	
Total assets by segment:		
Semiconductor equipment	$ 50,032	$ 50,754
Television cameras	8,530	8,728
Total assets for reportable segments	58,562	59,482
All other operating segments	7,013	7,537
Corporate	98,209	95,212
Total consolidated assets	$ 163,784	$ 162,231

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
MARCH 31, 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 certain risks and uncertainties, including but not limited to those discussed herein and, in particular, under the caption "Business and Market Risks" that could cause actual results to differ materially from those projected.

RESULTS OF OPERATIONS
FIRST QUARTER 1999 COMPARED TO FIRST QUARTER 1998
Net sales decreased 48% to $29.5 million in 1999 compared to net sales of $56.7 million in 1998. Net sales during the first quarter of 1999 were negatively impacted by the semiconductor equipment industry downturn that began in 1998. In addition, sales of the Company's gravity-feed semiconductor test handler products have declined significantly, as this equipment is no longer suitable for handling many types of DRAMs. Sales of semiconductor test handling equipment in 1999 decreased 53% from the 1998 period and accounted for 76% of consolidated net sales in 1999 versus 84% in 1998. Sales of television cameras and other equipment decreased 22% while the combined sales of metal detection and microwave equipment decreased 21%. Export sales accounted for 54% of net sales in the first quarter of 1999 compared to 44% for the year ended December 31, 1998.

Gross margin as a percentage of net sales declined to 35.1% in 1999 versus 41.1% in 1998 as a result of lower margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins decreased in 1999 primarily as a result of reduced business volume. Research and development expense as a percentage of net sales was 14.6% in 1999, compared to 9.5% in 1998, decreasing in absolute dollars from $5.4 million in 1998 to $4.3 million in 1999. Selling, general and administrative expense as a percentage of net sales increased to 17.2% in 1999 from 10.9% in 1998 primarily as a result of the decrease in business volume. Interest income was $1.1 million in 1999 and $.8 million in 1998 as the increase in average cash and investments offset the impact of lower interest rates. The provision for income taxes expressed as a percentage of pre-tax income was 33.5% in the first quarter of 1999. As a result of the factors set forth above, net income decreased from $8.2 million in 1998 to $1.4 million in 1999.

LIQUIDITY AND CAPITAL RESOURCES
The Company's net cash flows generated from operating activities in the first three months of 1999 totaled $1.1 million. The major components of cash flows from operating activities were net income of $1.4 million and an increase in accounts payable of $5 million offset by an increase in inventories of $2.2 million and a decrease in other accrued liabilities of $4.3 million. Net cash used for investing activities included $14.2 million for the purchase of short-term investments, less maturities, and purchases of property, plant and equipment and other assets of $.3 million. Net cash used for financing activities was $.6 million. Cash used for financing activities included $.9 million for the payment of dividends, offset by $.3 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 $121.4 million at March 31, 1999. It is anticipated that present working capital and available borrowings under the line of credit will be sufficient to meet the Company's 1999 operating requirements.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
MARCH 31, 1999

BUSINESS AND MARKET RISKS

INDUSTRY CYCLES

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

RAPID TECHNOLOGICAL CHANGE AND NEW PRODUCTS

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

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

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
MARCH 31, 1999

BUSINESS AND MARKET RISKS (CONT.)
The transition from product development to the manufacture of new semiconductor equipment is a difficult process and delays in product introductions are common. During 1998 and 1999 the Company experienced delays in the introduction of its new Enterprise and Castle test handlers and difficulties in manufacturing and volume production of these products. In addition, after sale support and warranty costs are typically greater with new test handlers than with established products. There can be no assurance that future technologies, processes and product developments will not render the Company's current or future product offerings obsolete or that the Company will be able to develop and introduce new products or enhancements to its existing products in a timely manner to satisfy customer needs or achieve market acceptance. Furthermore, there is no assurance that the Company will realize acceptable profit margins on such products.

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

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

FOREIGN SALES
In 1998, 44% of the Company's total net sales were exported to foreign countries, including 51% of the sales in the semiconductor equipment segment. The majority of the Company's export sales are made to destinations in Asia. Instability in global economic markets, particularly in Asia, may adversely impact the demand for capital equipment, including equipment of the type manufactured and marketed by the Company. In addition, changes in the amount or price of semiconductors produced in Asia could impact the profitability or capital equipment spending programs of the Company's foreign and domestic customers.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
MARCH 31, 1999

BUSINESS AND MARKET RISKS (CONT.)

WORK FORCE REDUCTIONS

During 1996 and 1998 the Company reduced the size of its work force and implemented other cost reduction measures. Cost reduction measures may have a negative impact on the Company's operations and operating results. Furthermore, no assurance can be made that such cost reduction measures will be implemented successfully.

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. No assurance can be given that the Company will continue to compete successfully in any of these businesses.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At March 31, 1999 the Company's investment portfolio includes fixed-income securities of $80.1 million. These securities are subject to interest rate risk and will decline in value if interest rates increase. Due to the short duration of the Company's investment portfolio, an immediate 10 percent increase in interest rates would have no material impact on the Company's financial condition or results of operations.

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

YEAR 2000 RISKS

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

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

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
MARCH 31, 1999

BUSINESS AND MARKET RISKS (CONT.)
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 June 1999. A contingency team will be available after June 1999 to assist those customers experiencing difficulties with the Company's products.

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

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

The Company estimates that total Y2K costs will be approximately $500,000, the great majority of which will be incurred by January 2000. Y2K costs incurred through March 31, 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 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

27.1 - Financial Data Schedule

(b) Reports on Form 8-K: The Company did not file any reports on Form 8-K during the quarter ended March 31, 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: April 22, 1999

/s/ Charles A. Schwan
Charles A. Schwan
President & Chief Executive Officer

Date: April 22, 1999

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

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

3-MOS
DEC-31-1998
JAN-01-1999
MAR-31-1999
60,574
26,420
18,356
0
28,046
145,362
32,668
15,393
163,784
23,980
0
0
0
9,828
128,457
163,784
29,526
29,526
19,164
19,164
0
0
0
2,091
700
1,391
0
0
0
1,391
.14
.14