UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2002

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.)

12367 Crosthwaite Circle, Poway, California	**92064-6817**
(Address of principal executive office)	(Zip Code)

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

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

Yes [X] No [ ]

As of June 30, 2002, the Registrant had 20,787,313 shares of its $1.00 par value common stock outstanding.

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Item 1.

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

	June 30, 2002	December 31, 2001*
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 57,087	$ 65,510
Short-term investments	38,688	24,457
Accounts receivable, less allowance for doubtful accounts of $1,534 in 2002 and $1,889 in 2001	29,173	25,904
Note receivable	9,184	9,375
Inventories:		
Raw materials and purchased parts	12,226	13,982
Work in process	11,280	9,417
Finished goods	6,142	7,005
	29,648	30,404
Deferred income taxes	15,092	15,092
Other current assets	5,964	5,681
Total current assets	184,836	176,423
Property, plant and equipment, at cost:		
Land and land improvements	8,942	8,938
Buildings and building improvements	24,656	24,610
Machinery and equipment	23,993	23,440
	57,591	56,988
Less accumulated depreciation and amortization	23,208	21,139
Net property, plant and equipment	34,383	35,849
Goodwill	8,340	8,340
Other intangible assets, net of accumulated amortization of $165 in 2002 and $79 in 2001	695	781
Other assets	161	166
	$228,415	$221,559
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 10,088	$ 7,845
Accrued compensation and benefits	5,581	5,224
Accrued warranty	3,776	2,902
Customer advances	3,138	2,608
Deferred profit	5,332	3,108
Other accrued liabilities	3,624	3,932
Total current liabilities	31,539	25,619
Accrued retiree medical benefits	1,104	1,109
Deferred income taxes	4,300	4,300
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $1 par value; 1,000 shares authorized, none issued	—	—
Common stock, $1 par value; 60,000 shares authorized, 20,787 shares issued and outstanding in 2002 and 20,543 shares in 2001	20,787	20,543
Paid in capital	14,153	11,776
Retained earnings	156,182	158,012
Accumulated other comprehensive income	350	200
Total stockholders' equity	191,472	190,531
	$228,415	$221,559

* Amounts as of December 31, 2001 are derived from audited financial statements included in the Cohu 2001 Annual Report on Form 10-K

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net sales	$38,307	$29,281	$69,895	$72,999
Cost and expenses:				
Cost of sales	22,920	21,686	42,467	53,919
Research and development	8,387	6,637	15,958	15,067
Selling, general and administrative	6,400	6,706	12,515	13,220
	37,707	35,029	70,940	82,206
Income (loss) from operations	600	(5,748)	(1,045)	(9,207)
Interest income	722	1,117	1,488	2,434
Income (loss) before income taxes	1,322	(4,631)	443	(6,773)
Income tax provision (benefit)	500	(1,800)	200	(2,600)
Net income (loss)	$ 822	$ (2,831)	$ 243	$ (4,173)
Income (loss) per share:				
Basic	$ .04	$ (.14)	$ .01	$ (.20)
Diluted	$ .04	$ (.14)	$ .01	$ (.20)
Weighted average shares used in computing income (loss) per share:				
Basic	20,750	20,417	20,685	20,379
Diluted	21,690	20,417	21,626	20,379
Cash dividends declared per share	$ .05	$ .05	$ .10	$ .10

See accompanying notes.

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

	Six Months Ended June 30,	
	2002	2001
Cash flows from operating activities:		
Net income (loss)	$ 243	$ (4,173)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:		
Depreciation and amortization	2,174	2,554
Decrease in accrued retiree medical benefits	(5)	(11)
Changes in current assets and liabilities:		
Accounts receivable	(3,269)	16,772
Note receivable	191	—
Inventories	756	7,440
Other current assets	(343)	(2,154)
Accounts payable	2,243	(2,433)
Customer advances	530	1,091
Deferred profit	2,224	(3,291)
Accrued compensation, warranty and other liabilities	923	(2,135)
Net cash provided from operating activities	5,667	13,660
Cash flows from investing activities:		
Purchases of short-term investments	(17,070)	(9,122)
Sales and maturities of short-term investments	3,049	5,211
Purchases of property, plant and equipment	(622)	(4,988)
Other assets	5	(73)
Net cash used for investing activities	(14,638)	(8,972)
Cash flows from financing activities:		
Issuance of stock, net	2,621	1,655
Cash dividends	(2,073)	(2,041)
Net cash provided from (used for) financing activities	548	(386)
Net increase (decrease) in cash and cash equivalents	(8,423)	4,302
Cash and cash equivalents at beginning of period	65,510	79,119
Cash and cash equivalents at end of period	$ 57,087	$83,421
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Income taxes, net of refunds	$ 501	$ (156)

See accompanying notes.

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2002

1. Basis of Presentation

The accompanying interim financial statements are unaudited but include all adjustments (consisting of normal recurring adjustments) which Cohu, Inc. (the "Company" or "Cohu") considers necessary for a fair statement of the results for the period. The operating results for the three and six months ended June 30, 2002 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 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and management's discussion and analysis of financial condition and results of operations included elsewhere herein.

2. Income (loss) Per Share

Income (loss) per share is computed in accordance with Financial Accounting Standards Board ("FASB") Statement No. 128, *Earnings per Share*. Basic income (loss) per share is computed using the weighted average number of common shares outstanding during each period. Diluted income (loss) per share includes the dilutive effect of common shares potentially issuable upon the exercise of stock options. For purposes of computing diluted income (loss) per share, stock options with exercise prices that exceed the average fair market value of the Company's common stock for the period are excluded. For the three and six months ended June 30, 2002, options to purchase approximately 42,000 and 43,000 shares of common stock, respectively, were excluded from the computation. The impact of stock options is excluded for loss periods as they would be antidilutive. The following table reconciles the denominators used in computing basic and diluted income (loss) per share:

	Three months ended June 30,		Six months ended June 30,	
	2002	**2001**	**2002**	**2001**
	(in thousands)		*(in thousands)*	
Weighted average common shares outstanding	20,750	20,417	20,685	20,379
Effect of dilutive stock options	940	—	941	—
	21,690	20,417	21,626	20,379

3. Note Receivable

In April 2002, the Company extended the term of the $9.4 million promissory note with TC Kearny Villa, L.P. ("TC"). The 8% non-recourse note is secured by a deed of trust on land and buildings in San Diego, California sold by Cohu to TC in April 2001. The note amendment extended the due date from April 2002 to March 31, 2003 and provided for a principal payment of $191,000. Interest at 8% was to continue to be paid monthly with the remaining principal balance of $9.2 million due on March 31, 2003.

The property is currently unoccupied and is being offered for sale or lease by TC. TC has not paid the June 2002 interest of $61,227 that was due on July 1 and, as a result, the note is in default. If TC fails to make the required interest payments Cohu will need to assess whether it is in its best interests to foreclose on the property. Cohu believes the fair value of the property is in excess of the outstanding $9.2 million note balance. However, no assurances can be made that the net sale proceeds from the property, should Cohu dispose of the property through foreclosure, would exceed the outstanding note balance. If the sale proceeds were less than the note balance Cohu would realize a loss that would adversely impact operating results. Pursuant to the note agreement, interest continues to accrue at 8%.

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2002

4. Deferred Tax Assets

Cohu had deferred tax assets totaling approximately $15.1 million at June 30, 2002. No valuation allowance has been provided on such assets as the Company believes it is more likely than not that all such assets will be realized. The Company reached this conclusion after considering the availability of taxable income in prior carryback years, tax planning strategies and the likelihood of future taxable income exclusive of reversing temporary differences and carryforwards. Differences between forecasted and actual future operating results could adversely impact the Company’s ability to realize these deferred tax assets.

If Cohu incurs losses for an extended period of time, Cohu could be required to establish a valuation allowance against all or a significant portion of its net deferred tax assets. To the extent Cohu establishes a valuation allowance, a charge will be recorded within the provision for income taxes line in the statement of operations. The Company will continue to evaluate the realizability of deferred tax assets quarterly in 2002 by assessing the need for a valuation allowance.

5. Goodwill and Other Intangible Assets

Cohu purchased the assets of the Automated Systems business (“AS”) from Schlumberger Technologies, Inc. in July 2001. The results of AS’s operations, that include approximately $5.9 million of net sales in the first six months of 2002, have been included in Cohu’s financial statements since July 2001. The purchase price was allocated in accordance with Financial Accounting Standards Board (“FASB”) Statement No. 141 with $8.3 million allocated to nonamortizable goodwill and $860,000 allocated to amortizable other intangible assets with an estimated useful life of five years. The goodwill was assigned to Cohu’s semiconductor equipment segment. Cohu evaluated the goodwill and other intangible assets resulting from the AS acquisition for impairment at December 31, 2001 as required by FASB Statement No. 121. The Company compared the carrying value of such assets to estimated undiscounted cash flows expected to result from their use and concluded there was no impairment loss at December 31, 2001.

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

FASB Statement No. 142, *Goodwill and Other Intangible Assets*, was issued in June 2001. Statement No. 142 uses a different goodwill impairment assessment methodology than Statement No. 121. The Company was required to fully adopt Statement No. 142 effective January 1, 2002. The Company completed a transitional goodwill impairment test as of January 1, 2002 in June 2002. The Company did not record an impairment loss as a result of the transitional goodwill impairment test. FASB No. 142 also requires that goodwill be tested for impairment on an annual basis and more frequently in certain circumstances. The Company evaluated the other intangible assets for impairment at June 30, 2002 under FASB Statement No. 144, and concluded there was no impairment loss. Future impairment evaluations could result in asset writedowns with corresponding charges to operating results.

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2002

6. Comprehensive Income

Components of comprehensive income, on an after-tax basis where applicable, were as follows:

	Three Months Ended June 30, 2002	Six Months Ended June 30, 2002
	(in thousands)	
Net income	$822	$243
Change in unrealized gain on investments	170	150
Comprehensive income	$992	$393

Accumulated other comprehensive income totaled $350,000 and $200,000 at June 30, 2002 and December 31, 2001, respectively, and was attributed to after-tax unrealized gains on investments.

7. Segment and Related Information

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

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
	(in thousands)		*(in thousands)*	
Net sales:				
Semiconductor equipment	$31,221	$21,800	$55,829	$57,024
Television cameras	4,397	5,048	8,337	10,917
Net sales for reportable segments	35,618	26,848	64,166	67,941
All other	2,689	2,433	5,729	5,058
Total consolidated net sales	$38,307	$29,281	$69,895	$72,999
Profit (loss):				
Semiconductor equipment	$ 1,346	$ (4,655)	$ 253	$ (8,001)
Television cameras	286	152	328	563
Profit (loss) for reportable segments	1,632	(4,503)	581	(7,438)
All other	(440)	(254)	(390)	(328)
Total consolidated profit (loss)	1,192	(4,757)	191	(7,766)
Other unallocated amounts:				
Corporate expenses	(592)	(485)	(1,236)	(863)
Interest income	722	1,117	1,488	2,434
Goodwill amortization/write-down	—	(506)	—	(578)
Income (loss) before income taxes	$ 1,322	$ (4,631)	$ 443	$ (6,773)

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2002

	June 30, 2002	December 31, 2001
	(in thousands)	
Total assets by segment:		
Semiconductor equipment	$ 98,215	$ 97,304
Television cameras	7,722	9,480
Total assets for reportable segments	105,937	106,784
All other operating segments	7,877	7,009
Corporate, principally cash and investments and deferred taxes	114,601	107,766
Total consolidated assets	$228,415	$221,559
Working capital	$153,297	$150,804
Stockholders' equity	191,472	190,531

8. Contingencies

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

Item 2.

COHU, INC.
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANACIAL CONDITION
AND RESULTS OF OPERATIONS
June 30, 2002

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Cohu’s discussion and analysis of its financial condition and results of operations are based upon Cohu’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Cohu to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, Cohu evaluates its estimates, including those related to bad debts, inventories, intangible assets, income taxes, warranty obligations and contingencies and litigation. Cohu bases its estimates on historical experience and current developments and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Cohu believes the following critical accounting policies, that are more fully described in the Cohu Consolidated Financial Statements included in the 2001 Annual Report on Form 10-K filed with the Securities and Exchange Commission, affect the significant judgments and estimates used in the preparation of its consolidated financial statements.

Cohu generally *recognizes revenue* upon shipment and title passage for established products (i.e. those that have previously satisfied customer acceptance requirements) that provide for full payment tied to shipment. Revenue for products that have not previously satisfied customer acceptance requirements or from sales where customer payment dates are not determinable is recognized upon customer acceptance. Cohu maintains an *allowance for doubtful accounts* for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of Cohu’s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Cohu provides for the estimated costs of *product warranties* in the period sales are recognized. Cohu’s warranty obligation is affected by historical product shipment levels, product performance and material and labor costs incurred in correcting product performance problems. Should product performance, material usage or labor repair costs differ from Cohu’s estimates, revisions to the estimated warranty liability would be required. Cohu records *valuation reserves on its inventory* for estimated excess and obsolete inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future product demand and market conditions. If future product demand or market conditions are less or more favorable than those projected by management, changes to inventory reserves may be required. At June 30, 2002, Cohu assessed the need for a *valuation allowance on its deferred tax assets*. Cohu believes it is more likely than not that all such assets will be realized and as a result no valuation allowance was recorded. Should Cohu determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to operations in the period such determination was made. At December 31, 2001, *Goodwill and other intangible assets* were evaluated for impairment using undiscounted cash flows expected to result from the use of the assets as required by FASB Statement No. 121. We concluded that there was no impairment loss at December 31, 2001. Cohu is required to reassess goodwill impairment in 2002 using the methodology prescribed by FASB Statement No. 142. FASB No. 142 requires that a transitional goodwill impairment test be performed as of January 1, 2002 and completed by June 30, 2002. Cohu did not recognize any goodwill impairment as a result of performing this transitional test. FASB No. 142 also requires that goodwill be tested for impairment on an annual basis and more frequently in certain circumstances. The Company evaluated the other intangible assets for impairment at June 30, 2002 under FASB Statement No. 144, and concluded there was no impairment loss.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANACIAL CONDITION
AND RESULTS OF OPERATIONS
June 30, 2002

RESULTS OF OPERATIONS

Cohu's primary business activity involves the development, manufacture, marketing and servicing of test handling equipment for the global semiconductor industry. Demand for Cohu's products can change significantly from period to period as a result of numerous factors including, but not limited to, changes in global economic conditions, supply and demand for semiconductors, changes in semiconductor manufacturing capacity and processes and competitive product offerings. Due to these and other factors, Cohu's historical results of operations, including the periods described herein, may not be indicative of future operating results.

Second Quarter 2002 Compared to Second Quarter 2001

Although our sales have increased in each of the last three consecutive calendar quarters, Cohu continued to be impacted by the downturn in the semiconductor equipment industry that began in late 2000. Our net sales increased 31% to $38.3 million in 2002 compared to net sales of $29.3 million in 2001. Sales of semiconductor test handling equipment in 2002 increased 43% from the 2001 period and accounted for 82% of consolidated net sales in 2002 versus 74% in 2001. Sales of television cameras and other equipment accounted for 11% of net sales in 2002 and decreased 13% while the combined sales of metal detection and microwave equipment increased 11%.

Gross margin as a percentage of net sales increased to 40.2% in 2002 from 25.9% in 2001 primarily as a result of higher margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins increased in 2002 primarily as a result of increased business volume and decreased provisions for excess and obsolete inventory. Cohu computes the majority of its excess and obsolete inventory reserve requirements using a one-year inventory usage forecast. During the second quarter of 2001, we recorded charges totaling approximately $4.6 million for excess and obsolete inventory primarily as a result of declines in customer forecasts that negatively impacted our forecasted inventory usage. While we believe our reserves for excess and obsolete inventory are adequate to cover our exposures at June 30, 2002, reductions in customer forecasts may require additional charges to operations that could negatively impact our gross margin in future periods. Conversely, if our forecasted inventory usage is lower than our actual usage, reductions to our inventory reserve requirements may result in credits to cost of sales that could favorably impact gross margin in future periods. Our gross margin in the third quarter of 2002 will be lower than both the first and second quarter 2002 gross margin due to a less favorable product sales mix and, to a lesser extent, lower average product selling prices due to increased competitive pricing pressure. Unless we are able to introduce new, lower cost products or significantly reduce the cost of existing products, we believe these factors will also negatively impact our gross margin in periods beyond the third quarter.

Research and development expense ("R&D") as a percentage of net sales was 21.9% in 2002, compared to 22.7% in 2001, increasing in absolute dollars from $6.6 million in 2001 to $8.4 million in 2002. The increase in R&D was primarily the result of higher R&D labor costs as a result of the Automated Systems acquisition completed in July 2001. Selling, general and administrative ("SG&A") expense as a percentage of net sales decreased to 16.7% in 2002 from 22.9% in 2001 primarily as a result of the increase in business volume. SG&A expense in 2001 includes $0.5 million of goodwill amortization offset by a $0.4 million reduction in the allowance for doubtful accounts and bad debt expense. Interest income was $0.7 million and $1.1 million in 2002 and 2001, respectively. The decline in interest income was due to lower interest rates. The provision (benefit) for income taxes expressed as a percentage of pre-tax income was 37.8% in the second quarter of 2002 and (38.9)% in 2001. As a result of the factors set forth above, the net loss was $2.8 million in 2001 compared to net income of $0.8 million 2002.

Six Months Ended June 30, 2002 Compared to Six Months Ended June 30, 2001

Our net sales decreased 4% to $69.9 million in 2002 compared to net sales of $73.0 million in 2001. Sales of semiconductor test handling equipment in 2002 decreased 2% from the 2001 period and accounted for 80% of consolidated net sales in 2002 versus 78% in 2001. Sales of television cameras and other equipment accounted for 12% of net sales in 2002 and decreased 24% while the combined sales of metal detection and microwave equipment increased 13%.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANACIAL CONDITION
AND RESULTS OF OPERATIONS
June 30, 2002

Gross margin as a percentage of net sales increased to 39.2% in 2002 from 26.1% in 2001 primarily as a result of higher margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins increased in 2002 primarily as a result of a reduction in provisions for excess and obsolete inventory. During 2001, we recorded charges totaling approximately $8.8 million for excess and obsolete inventory primarily as a result of declines in customer forecasts that negatively impacted our forecasted inventory usage.

Research and development expense as a percentage of net sales was 22.8% in 2002, compared to 20.6% in 2001, increasing from $15.1 million to $16.0 million primarily due to higher R&D labor costs as a result of the Automated Systems acquisition. SG&A expense as a percentage of net sales decreased to 17.9% in 2002 from 18.1% in 2001 primarily as a result of the reduction in the allowance for doubtful accounts and bad debt expense of $0.4 million. SG&A expense in 2001 includes $0.5 million of goodwill amortization offset by a $0.4 million reduction in the allowance for doubtful accounts and bad debt expense. Interest income was $1.5 million and $2.4 million in 2002 and 2001, respectively. The decline in interest income was due to lower interest rates. The provision (benefit) for income taxes expressed as a percentage of pre-tax income was 45.1% for the first six months of 2002 and (38.4)% in 2001. As a result of the factors set forth above, the net loss was $4.2 million in 2001 compared to net income of $0.2 million in 2002.

LIQUIDITY AND CAPITAL RESOURCES

The Company's net cash flows provided by operating activities in the first six months of 2002 totaled $5.7 million. The major components of cash flows provided by operating activities were net income of $0.2 million, the net change in current assets and liabilities totaling $3.3 million and depreciation and amortization of $2.2 million. Net cash used for investing activities included $14.0 million for the purchase of short-term investments, less sales and maturities, and purchases of property, plant and equipment and other assets of $0.6 million. Net cash provided by financing activities was $0.5 million. Cash provided by financing activities included $2.6 million received from the issuance of stock upon the exercise of stock options offset by $2.1 million for the payment of dividends. The Company had $5 million available under its bank line of credit and working capital of $153.3 million at June 30, 2002. Working capital at June 30, 2002 includes a $9.2 million note receivable due March 31, 2003 that is in default. 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 at least the next twelve months.

TRENDS, RISKS AND UNCERTAINTIES

The semiconductor industry we serve is highly volatile and unpredictable.

Cohu's operating results are substantially dependent on our semiconductor equipment business. This capital equipment business is in turn highly dependent on the overall strength of the semiconductor industry. Historically, the semiconductor industry has been highly cyclical with recurring periods of oversupply and excess capacity, which often have had a significant effect on the semiconductor industry's demand for capital equipment, including equipment of the type manufactured and marketed by Cohu. We anticipate that the markets for newer generations of semiconductors and semiconductor equipment may also be subject to similar cycles and severe downturns, such as those experienced in 1996, 1998 and late 2000, continuing throughout 2001 and 2002. Reductions in capital equipment investment by semiconductor manufacturers and semiconductor test subcontractors will materially and adversely affect our business, financial position and results of operations. In addition, the volatile and unpredictable nature of semiconductor equipment demand has in the past and may in the future expose us to significant excess and obsolete inventory write-offs and reserve requirements. In the year ended December 31, 2001, the Company recorded pretax inventory related charges of approximately $16 million primarily as a result of changes in customer forecasts.

TRENDS, RISKS AND UNCERTAINTIES (cont.)

A limited number of customers account for a substantial percentage of our net sales.

We rely on a limited number of customers for a substantial percentage of our net sales. In 2001, three customers of the semiconductor equipment segment accounted for 45% (48% in 2000 and 43% in 1999) of our net sales. One customer alone in 2001 accounted for 34% of our net sales. This customer represented approximately 42% of our net sales during the first six months of 2002. During the past five years, the percentage of Cohu's sales derived from each of these and other significant customers has varied greatly. Such variations are due to changes in the customer's business and their purchase of products from our competitors. It is common in the IC test handler industry for customers to purchase equipment from more than one equipment supplier, increasing the risk that our competitive position with a specific customer may deteriorate. No assurance can be given that we will continue to maintain our competitive position with these or other significant customers. Furthermore, we expect the percentage of our revenues derived from significant customers will vary greatly in future periods. The loss of, or a significant reduction in, orders by these or other significant customers as a result of competitive products, market conditions, outsourcing final IC test to test subcontractors that are not our customers or other factors, would adversely impact our business, financial condition and results of operations. Furthermore, the concentration of our revenues in a limited number of large customers may cause significant fluctuations in our future annual and quarterly operating results.

The semiconductor equipment industry in general, and the test handler market in particular, is highly competitive.

The semiconductor test handler industry is intensely competitive and we face substantial competition from numerous companies throughout the world. Future competition may include companies that do not currently supply test handlers. The Japanese and Korean markets for test handling equipment are large and represent a significant percentage of the worldwide market. During the last five years we have had limited sales to Japanese and Korean customers who have historically purchased test handling equipment from Asian suppliers. Some of our competitors have substantially greater financial, engineering, manufacturing and customer support capabilities and offer more extensive product offerings than Cohu. In addition, there are smaller, emerging semiconductor equipment companies that provide or may provide innovative technology incorporated in products that may compete favorably against those of Cohu. We expect our competitors to continue to improve the design and performance of their current products and introduce new products with improved performance capabilities. Our failure to introduce new products in a timely manner, the introduction by our competitors of products with perceived or actual advantages, or disputes over rights of Cohu or our competitors to use certain intellectual property or technology could result in a loss of our competitive position and reduced sales of or margins on our existing products. We believe that competitive conditions in the semiconductor test handler market have intensified over the last several years. This intense competition has adversely impacted our product average selling prices and gross margins. If we are unable to reduce the cost of our existing products and successfully introduce new lower cost products we expect these competitive conditions to negatively impact our gross margin and operating results for the foreseeable future.

We are exposed to risks associated with acquisitions.

Cohu has made, and may in the future make, acquisitions of, or significant investments in, businesses with complementary products, services and/or technologies. In July 2001, Cohu acquired the assets of the Automated Systems business from Schlumberger Technologies, Inc. for $14.3 million in cash. A significant portion of the purchase price was allocated to goodwill and other intangible assets. Acquisitions involve numerous risks, including, but not limited to: 1) difficulties and increased costs in connection with integration of the personnel, operations, technologies and products of acquired businesses; 2) diversion of management's attention from other operational matters; 3) the potential loss of key employees of acquired businesses; 4) lack of synergy, or the inability to realize expected synergies, resulting from the acquisition; 5) failure to commercialize purchased

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technology; and 6) the impairment of acquired intangible assets, including goodwill, that could result in significant charges to operating results in future periods. In addition, such acquisitions or investments may result in immediate charges to operating results. Mergers and acquisitions are inherently risky and the inability to effectively manage these risks could materially and adversely affect Cohu's business, financial condition and results of operations.

We have taken and expect to continue to take remedial measures to address the slowdown in the semiconductor equipment industry that may affect our ability to be competitive.

We have taken and will continue to assess the need to take remedial measures to address the slowdown in the market for our products. In particular, we have reduced our workforce, delayed salary increases, reduced senior executives pay, implemented furloughs and reduced our expense budgets. These measures have reduced our expenses in the face of decreased revenues due to decreased or cancelled customer orders. However, each of these measures could have long-term effects on our business by reducing our pool of technical talent, decreasing or slowing improvements in our products, and making it more difficult for us to respond to customers.

Semiconductor equipment is subject to rapid technological change, product introductions and transitions may result in inventory write-offs and our new product development involves numerous risks and uncertainties.

Semiconductor equipment and processes are subject to rapid technological change. We believe that our future success will depend in part on our ability to enhance existing products and develop new products with improved performance capabilities. We expect to continue to invest heavily in research and development and must manage product transitions successfully, as introductions of new products could adversely impact sales or margins of existing products. In addition, the introduction of new products, by Cohu or by our competitors, the concentration of our revenues in a limited number of large customers, the migration to new IC test handling methodologies and the custom nature of our inventory parts increases the risk that our established products and related inventory may become obsolete resulting in significant excess and obsolete inventory exposure. This increased exposure resulted in significant charges to operations during the third and fourth quarters of 2000 and the first three quarters of 2001. Future inventory write-offs and increased inventory reserve requirements could have a material adverse impact on our results of operations and financial condition.

The design, development, commercial introduction and manufacture of new semiconductor test handling equipment is an inherently complex process that involves a number of risks and uncertainties. These risks include potential problems in meeting customer performance requirements, integration of the test handler with other suppliers' equipment and the customers' manufacturing processes, transitioning from product development to volume manufacturing and the ability of the equipment to satisfy the semiconductor industry's constantly evolving needs and achieve commercial acceptance at prices that produce satisfactory profit margins. The design and development of new test handling equipment is heavily influenced by changes in integrated circuit (IC) assembly, test and final manufacturing processes and IC package design changes. We believe that the rate of change in such processes and IC packages is accelerating. As a result of these changes and other factors, assessing the market potential and commercial viability of new IC test handling equipment is extremely difficult and subject to a great deal of risk. In addition, not all IC manufacturers employ the same manufacturing processes. Differences in such processes make it difficult to design standard semiconductor test handler products that are capable of achieving broad market acceptance. As a result, we might not accurately assess the semiconductor industry's future test handler requirements and fail to design and develop products that meet such requirements and achieve market acceptance. Failure to accurately assess customer requirements and market trends for new semiconductor test handler products may have a material adverse impact on our operations, financial condition and results of operations.

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

Our backlog is limited and may not accurately reflect future business activity.

Our order backlog has historically represented approximately three months of revenue and as a result our visibility of future business activity is limited. Our revenues in the quarters ended December 31, 2001, March 31 and June 30, 2002 were, however, significantly lower than our backlog at the end of the preceding quarter. Due to the possibility of customer changes in delivery schedules, cancellation of orders, potential delays in product shipments, difficulties in obtaining inventory parts from suppliers, failure to satisfy customer acceptance requirements and the inability to recognize revenue under new accounting requirements, our backlog at any point in time may not be representative of sales in any future period. Furthermore, all orders are subject to cancellation or rescheduling by the customer with limited penalty. A reduction in backlog during any particular period could have a material adverse effect on our business, financial condition and results of operations. In addition, backlog at June 30, 2002 may not be a reliable indicator of revenues in future periods due to customer requested changes to delivery schedules, order cancellations and delays in recognizing revenue due to accounting requirements.

The cyclical nature of the semiconductor equipment industry places enormous demands on our employees, operations and infrastructure.

The semiconductor equipment industry is characterized by dramatic and sometimes volatile changes in demand for its products. Changes in product demand result from a number of factors including the semiconductor industry's ever changing and unpredictable capacity requirements and changes in IC design and packaging. Sudden changes in demand for semiconductor equipment have a significant impact on our operations. In response to a severe industry downturn in 1998, we reduced our total workforce by approximately 40%. During 1999, we increased our workforce by more than 50% as business conditions in the semiconductor equipment industry and our order backlog improved. In 2001, we reduced our workforce approximately 30% as a result of a downturn in the semiconductor equipment industry. Such radical changes in workforce levels place enormous demands on our employees, operations and infrastructure since newly hired personnel rarely possess the expertise and level of experience of current employees. Additionally, these transitions divert management time and attention from other activities. We have in the past and may in the future experience difficulties, particularly in manufacturing, in training and recruiting the large number of additions to our workforce. The volatility in headcount and business levels, combined with the cyclical nature of the semiconductor industry, may require that we invest substantial amounts in new operational and financial systems, procedures and controls. We may not be able to successfully adjust our systems, facilities and production capacity to meet our customers' changing requirements. The inability to meet such requirements will have an adverse impact on our business, financial position and results of operations.

We have experienced a significant decline in gravity-feed test handler sales to DRAM customers.

Sales of gravity-feed IC test handlers used in DRAM testing represented a significant percentage of Cohu's total semiconductor equipment related revenue during the period 1994 through 1998. Due to changes in IC package technology, gravity-feed handlers are no longer suitable for handling many types of DRAMs. As a result, we have

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seen a significant decline in sales of our gravity-feed test handler products that currently represent an insignificant percentage of our test handler revenues. Although pick-and-place IC handlers used in DRAM applications account for a significant portion of the worldwide IC handler market, Cohu's market share in this segment is negligible. Gravity-feed handlers are used in numerous non DRAM applications and continue to represent a significant portion of the worldwide test handler market.

We are exposed to the risks of operating a global business.

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

Failure of critical suppliers to deliver sufficient quantities of parts in a timely and cost-effective manner could adversely impact our operations.

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

We are exposed to the risk that third parties may violate our proprietary rights or accuse us of infringing upon their proprietary rights.

Cohu relies on patent, copyright, trademark and trade secret laws to establish and maintain proprietary rights in our technology and products. Our reliance on protection provided by such laws, and our costs to prosecute and defend such rights have increased significantly as a result of the intellectual property we acquired in conjunction with the Automated Systems acquisition in July 2001. Any of our proprietary rights may be challenged, invalidated or circumvented, and these rights may not provide significant competitive advantages. In addition, from time to time, we receive notices from third parties regarding patent or copyright claims. Any such claims, with or without merit, could be time-consuming to defend, result in costly litigation, divert management's attention and resources and cause Cohu to incur significant expenses. In the event of a successful claim of infringement against Cohu and our failure or inability to license the infringed technology or to substitute similar non-infringing technology, our business, financial condition and results of operations could be adversely affected.

A majority of our revenues are generated from exports to foreign countries, primarily in Asia, that are subject to economic instability and we compete against a number of Asian test handling equipment suppliers.

During 2001, 51% of our total net sales were exported to foreign countries, including 64% of the sales in the semiconductor equipment segment. The majority of our export sales are made to destinations in Asia. Instability in global economic markets, particularly in Asia, may adversely impact the demand for capital equipment, including equipment of the type manufactured and marketed by Cohu. In addition, we face intense competition from a number

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

The loss of key personnel could adversely impact our business.

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

Our non semiconductor equipment businesses have experienced little or no growth over the last five years.

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

We have experienced increases in our electricity costs and we may be exposed to power shortages.

Cohu is a significant user of electricity. The state of California has deregulated the price of electricity. Deregulation combined with increases in the cost of generating electricity have resulted in a rise in Cohu's electricity costs. Market forecasts predict significant increases in electricity prices in the future that will result in increased costs to Cohu that could have an adverse impact on our results of operations. In addition, our electricity costs have increased as a result of moving certain of our San Diego operations to a significantly larger facility in Poway, California in June 2001.

Power shortages have caused "blackouts" throughout California and San Diego County. In March 2001, Cohu's operations were temporarily suspended as a result of a blackout. We currently do not have back-up generators or alternate sources of power in the event of a blackout. Further blackouts could result in our failure to meet customer delivery requirements damaging our reputation and resulting in lost revenue that would have a material adverse impact on our business, results of operations and financial condition.

New accounting rules may impact the timing of revenue recognition and operating results.

In December 1999, the staff of the Securities and Exchange Commission issued SAB 101, *Revenue Recognition in Financial Statements*. Cohu adopted SAB 101 in the fourth quarter of 2000 and, as required, changed its method of revenue recognition in certain instances. As a result of this change, a cumulative effect adjustment was recorded in Cohu's statement of income for the quarter ended March 31, 2000. Further changes in revenue

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recognition practices resulting from initiatives by the FASB are possible. Such changes could result in additional adjustments to our results of operations that may be reflected in future periods.

We have experienced significant volatility in our stock price.

A variety of factors may cause the price of our stock to be volatile. In recent years, the stock market in general, and the market for shares of high-technology companies in particular, including ours, have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. During the last three years the price of our common stock has ranged from a closing high of $61.75 to a closing low of $12.63. The price of our stock may be more volatile than other companies due to, among other factors, the unpredictable and cyclical nature of the semiconductor industry, our significant customer concentration, intense competition in the IC test handler industry, our limited backlog making earnings predictability difficult and our relatively low daily stock trading volume. The market price of our common stock is likely to continue to fluctuate significantly in the future, including fluctuations related and unrelated to our performance.

Due to all the above and other factors, historical results may not be indicative of results of operations for any future period. In addition, certain matters discussed above are forward-looking statements that are subject to the risks and uncertainties noted herein and the other risks and uncertainties listed from time to time in our filings with the Securities and Exchange Commission, including but not limited to the 2001 Annual Report on Form 10-K, that could cause actual results to differ materially from those projected or forecasted. Cohu undertakes no obligation to update the information, including the forward-looking statements, in this Form 10-Q.

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Item 3. Quantitative and qualitative disclosures about market risk.

Interest rate risk.

At June 30, 2002, our investment portfolio includes fixed-income securities with a fair value of approximately $38.6 million. These securities are subject to interest rate risk and will decline in value if interest rates increase. Due to the relatively short duration of our investment portfolio, an immediate ten percent change (e.g. 3.00% to 3.30%) in interest rates would have no material impact on our financial condition or results of operations.

Foreign currency exchange risk.

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

Part II OTHER INFORMATION

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

The Annual Meeting of Stockholders was held on May 14, 2002. At the meeting the following director was elected:

Director	Number of Common Shares Voted	
	For	Withhold Authority
Charles A. Schwan	18,701,595	853,211

The remaining directors continuing in office until 2003 or 2004 are James W. Barnes, James A. Donahue, Harry L. Casari and Harold Harrigian.

In addition, the stockholders approved the following proposal:

Proposal	Number of Common Shares Voted			
	For	Against	Abstain	Broker Non-Votes
To approve an amendment to the Cohu, Inc. 1998 Stock Option Plan, increasing the shares of stock subject to the Plan by 1,000,000	15,785,868	3,649,540	119,395	3

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

(a) Exhibits:

3.1	-	Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference to Exhibit 3.1(a) from the Cohu, Inc. Form 10-Q for the quarterly period ended June 30, 1999
3.1(a)	-	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference from the Cohu, Inc. Form S-8 filed June 30, 2000, Exhibit 4.1(a)
3.2	-	Amended and Restated Bylaws of Cohu, Inc. incorporated herein by reference to Exhibit 3.2 from the Cohu, Inc. Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 1996
4.1	-	Rights Agreement dated November 15, 1996, between Cohu, Inc. and ChaseMellon Shareholder Services, L.L.C., incorporated herein by reference from the Cohu, Inc. Report on Form 8-K filed December 12, 1996, Exhibit 4.1
10.1	-	Amendment No. 5, dated June 28, 2002, to Business Loan Agreement between Cohu, Inc. and Bank of America, N.A.
10.2	-	Cohu, Inc. 1998 Stock Option Plan (as amended)
10.3	-	First Amendment to and Extension of Non-Recourse Promissory Note Secured by Deed of Trust, dated April 11, 2002

(b) Reports on Form 8-K: The Company did not file any reports on Form 8-K during the quarter ended June 30, 2002.

SIGNATURES

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

COHU, INC.

(Registrant)

Date: July 26, 2002	/s/ James A. Donahue James A. Donahue President & Chief Executive Officer
Date: July 26, 2002	/s/ John H. Allen John H. Allen Vice President, Finance & Chief Financial Officer

Exhibit 10.1

[BANK OF AMERICA LOGO]

AMENDMENT NO. 5 TO LOAN AGREEMENT

This Amendment No. 5 (the "Amendment") dated as of June 28, 2002, is between Bank of America, N.A. (the "Bank"), formerly Bank of America National Trust and Savings Association, and Cohu, Inc. (the "Borrower").

RECITALS

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

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

AGREEMENT

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

2. Amendments. The Agreement is hereby amended as follows:

2.1 In Paragraph 1.1(a) of the Agreement, the amount "Five Million Dollars ($5,000,000)" is substituted for the amount "Ten Million Dollars ($10,000,000)".

2.2 In Paragraph 1.2 of the Agreement, the date "July 1, 2003" is substituted for the date "July 1, 2002".

2.3 Article 2 of the Agreement is amended to read in its entirety as follows:

2. FEES AND EXPENSES

2.4 A new Paragraph 2.3 is added to the Agreement, which reads in its entirety as follows:

2.3 Unused commitment fee. The Borrower agrees to pay a fee on any difference between the Commitment and the amount of credit it actually uses, determined by the weighted average credit outstanding during the specified period. The fee will be calculated at .125% per year. The calculation of credit outstanding shall not include the undrawn amount of letters of credit. This fee is due on September 30, 2002, and on the 10 day of each following quarter until the expiration of the availability period.

2.5 Paragraph 6.3 of the Agreement is deleted in its entirety.

2.6 Paragraph 6.4 of the Agreement is amended to read in its entirety as follows:

6.4 Tangible Net Worth. To maintain on a consolidated basis Tangible Net Worth equal to at least One Hundred Sixty Thousand Million Dollars ($160,000,000). "Tangible Net Worth" means the value of Borrower's total assets (including leaseholds and leasehold improvements and reserves against assets but excluding goodwill, patents, trademarks, trade names, organization expense, unamortized debt discount and expense, capitalized or deferred research and development costs, deferred marketing expenses, and other like intangibles, and monies due from affiliates, officers, directors, employees, shareholders, members or managers of Borrower) less total liabilities, including but not limited to accrued and deferred income taxes, but excluding the non-current portion of Subordinated Liabilities. "Subordinated Liabilities" means liabilities subordinated to Borrower's obligations to Bank in a manner acceptable to Bank in its sole discretion. This amount will calculated at the end of each fiscal quarter, using the results of that quarter.

2.7 Paragraph 6.5 of the Agreement is deleted in its entirety.

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

6.19 Unencumbered Liquid Assets. To hold, on an unconsolidated basis, Unencumbered Liquid Assets having an aggregate market value of not less than Fifty Million Dollars ($50,000,0000). For the purposes of this Agreement, "Unencumbered Liquid Assets" shall mean the following assets owned by the Borrower (excluding assets of any retirement plan) which (i) are not the subject of any lien, pledge, security interest or other arrangement with any creditor to have its claim satisfied out of the assets (or proceeds thereof) prior to the general creditors of the Borrower, and (ii) may be converted to cash within five (5) days: (a) Cash or cash equivalents held in the United States; (b) United States Treasury or governmental agency obligations which constitute full faith and credit of the United States of America; (c) Commercial paper rated P-1 or A1 by Moody's or S&P, respectively; (d) Medium and long-term securities rated investment grade by one of the rating agencies described in (c) above; (e) Eligible Stocks ; (f) Mutual funds quoted in The Wall Street Journal which invest primarily in the assets described in (a) -- (e) above. For purposes of this Agreement, "Eligible Stocks" means any common or preferred stock which (i) is not subject to statutory or contractual restrictions on sales, (ii) is traded on a U.S. national stock exchange or included in the National Market tier of NASDAQ and (iii) has, as of the close of trading on the applicable exchange (excluding after hours trading), a per share price of at least $15.

2.9 A new Paragraph 6.20 is added to the Agreement, which reads in its entirety as follows:

6.20 Limitation on Losses. Not to incur a net loss before taxes and extraordinary items in excess of Twelve Million Five Hundred Thousand Dollars ($12,500,000) in any annual accounting period.

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

4. Conditions. This Amendment will be effective when the Bank receives the following items, in form and content acceptable to the Bank:

4.1 Certificate of good standing for the Borrower from its state of formation.

4.2 A Corporate Resolution to Obtain Credit executed by the Borrower in the amount of Five Million Dollars ($5,000,000).

4.3 A Form U-1 Purpose Statement executed by the Borrower.

5. Effect of Amendment. Except as provided in this Amendment, all of the terms and conditions of the Agreement shall remain in full force and effect.

6. Counterparts. This Amendment may be executed in counterparts, each of which when so executed shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

7. FINAL AGREEMENT. THIS WRITTEN AMENDMENT REPRESENTS THE FINAL AGREEMENT BETWEEN AND AMONG THE PARTIES HERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS BETWEEN OR AMONG THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN OR AMONG THE PARTIES.

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

Bank of America, N.A.	Cohu, Inc.
X /s/ Patrick Loughlin	X /s/ John H. Allen
By: Patrick Loughlin, Senior Vice President	By: John H. Allen, Vice President/Finance & Chief Financial Officer

Exhibit 10.2

COHU, INC.
1998 STOCK OPTION PLAN
(as amended)

The Cohu, Inc. 1998 Stock Option Plan, is hereby adopted for the benefit of officers, directors, service providers and key employees of Cohu, Inc., a Delaware corporation and its parent or subsidiaries, if any.

1. Purpose. The purpose of the Plan is to advance the growth and prosperity of the Corporation and its stockholders by providing to officers, directors, service providers and key employees of the Corporation an incentive to serve the Corporation. By encouraging and enabling such persons to become owners of capital stock of the Corporation, the Corporation seeks to attract and retain persons of training, experience and ability and to furnish additional incentives to those persons upon whose judgment, initiative and efforts the successful conduct of the Corporation's business depends. It is the intention of the Corporation that this objective will be accomplished through the granting of incentive stock options and nonqualified stock options to certain officers, directors, service providers and key employees of the Corporation.

2. Definitions. As used herein, the following terms shall have the corresponding meanings.

2.1. "Committee" shall mean the Cohu, Inc. Compensation Committee, appointed by the Board of Directors of the Corporation. If no such Committee is appointed, the entire Board of Directors of the Corporation shall be deemed to constitute the Committee. The Board of Directors of the Corporation may also appoint an Employee Option Committee, consisting of one or more directors, which is authorized to grant options to employees (other than executive officers of the Corporation) subject to such limitations as may be established by the Board of Directors from time to time. If an Employee Option Committee is established, references to the term "Committee" shall also include the Employee Option Committee, as the case may be.

2.2. "Corporation" shall mean Cohu, Inc. and any successor corporation thereto and/or its parent or subsidiaries, if any, as the context requires. The terms "parent" and "subsidiary" shall mean any existing or future corporation which would be a parent or subsidiary corporation of the Corporation, as those terms are defined in Section 424 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder (the "Code").

2.3. "Date of Grant" shall mean the date of grant of a Stock Option granted hereunder as set forth in the Stock Option Agreement. In the event of a grant conditioned, among other things, upon stockholder ratification of this Plan, the date of such conditional grant shall be the Date of Grant for purposes of this Plan.

2.4. "Employee" shall mean any common-law employee of the Corporation. The determination of whether or not a person is an Employee of the Corporation with respect to the grant or exercise of an Incentive Stock Option shall be made in accordance with the rule of Income Tax Regulation Section 1.421-7(h) (or successor regulation).

2.5. "Fair Market Value" shall mean, with respect to the exercise of an option under the Plan, (a) if the Common Stock is listed on a national securities exchange or the NASDAQ National Market System, the closing price of the Common Stock for the business day immediately preceding the day for which the determination is being made, or (b) if the Common Stock is not then listed on an exchange, the average of the closing bid and asked prices per share for the Common Stock in the over-the-counter market as quoted on NASDAQ for the business day immediately preceding the day for which the determination is being made, or (c) if the Common Stock is not then listed on any exchange or quoted on NASDAQ, an amount determined in good faith by the Board of Directors to be the fair market value of the Common Stock, after consideration of all relevant factors.

2.6. "Holder" shall mean any person entitled to exercise a Stock Option pursuant to the terms of the Plan.

2.7. "Incentive Stock Option" shall mean a Stock Option which is intended to qualify for tax treatment as an incentive stock option under Section 422 of the Code. An Incentive Stock Option may only be granted to an Employee.

2.8. "Nonqualified Stock Option" shall mean a Stock Option which is not intended to qualify for tax treatment as an Incentive Stock Option under Section 422 of the Code.

2.9. "Plan" shall mean the Cohu, Inc. 1998 Stock Option Plan, as herein adopted and as may be amended from time to time.

2.10. "Purchase Price" shall mean the price paid for Shares upon the exercise of a Stock Option granted hereunder.

2.11. "Shares" shall mean those shares of Common Stock of the Corporation which are available for issuance pursuant to the terms of the Plan.

2.12. "Stock Option" shall mean a stock option giving a Holder the right to purchase Shares. A Stock Option may be an Incentive Stock Option or a Nonqualified Stock Option.

3. Term. All Stock Options shall be granted, if at all, within ten (10) years from the earlier of the date the Plan is adopted by the Board of Directors of the Corporation and the date the Plan is duly approved by the stockholders of the Corporation.

4. Eligibility. Stock Options may be granted only to employees (including officers and directors who are also employees) of the Corporation or its parent or subsidiaries or to individuals who are rendering services as directors, consultants, advisors, or other independent contractors to the Corporation or its parent or subsidiaries. For purposes of the foregoing sentence, "employees" shall include prospective employees to whom Stock Options are granted in connection with written offers of employment with the Corporation or its parent or subsidiaries and "consultants" or "advisors" shall include prospective consultants or advisors to whom Stock Options are granted in connection with written consulting or advising offers with the Corporation or its parent or subsidiaries. The Committee shall, in the Committee's sole discretion, determine which persons shall be granted Stock Options. An individual who is rendering services as a director (and who is not an employee), consultant, advisor, or other independent contractor or who is a prospective employee, consultant or advisor shall be eligible to be granted only a Nonqualified Stock Option. A Holder may, if otherwise eligible, be granted more than one Stock Option. In no event may a Stock Option be granted to an individual where

such grant, together with all other Stock Options granted during that calendar year, would entitle the holder of the Stock Option to purchase more than 200,000 Shares.

5. Shares of Stock Subject to the Plan. Subject to the adjustments set forth in the Plan, the Shares which may be issued pursuant to the Plan shall not exceed in the aggregate 2,850,000 shares of the Corporation's Common Stock, $1.00 par value. Such Shares shall be authorized and unissued shares. Any Shares subject to a Stock Option granted under this Plan which for any reason expires or is terminated unexercised and/or Shares subject to repurchase which are repurchased by the Corporation shall again be subject to and be available for issuance pursuant to the terms of this Plan. Notwithstanding the foregoing, any such shares shall be made subject to a new Stock Option only if the grant of such new Stock Option and the issuance of such shares pursuant to such new Stock Option would not cause the Plan or any Stock Option granted under the Plan to contravene Rule 16b-3, as promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and as amended from time to time or any successor rule or regulation ("Rule 16b-3").

6. Administration of the Plan. Within the limitations described herein, the Committee shall administer the Plan, select the officers, directors, service providers and Employees of the Corporation to whom Stock Options shall be granted, determine the number of Shares to be subject to each grant, determine the method of payment upon exercise of each Stock Option, determine all other terms of Stock Options granted hereunder and interpret, construe and implement the provisions of the Plan. By the adoption of this Plan, the Board of Directors of the Corporation is delegating to the Committee plenary authority to administer the Plan. All questions of interpretation of the Plan or any Stock Option granted under the Plan shall be determined by the Committee, and such decisions shall be binding upon all persons having an interest in the Plan and/or any Stock Option.

With respect to the participation of eligible participants who are subject to Section 16(b) of the Exchange Act, the Plan shall be administered in compliance with the requirements of Rule 16b-3. In the case of officers or other Employees or persons who are not directors of the Corporation, grants may be approved by the Committee or by a majority of the members of the Board of Directors. Notwithstanding the above, the Committee, in its sole discretion, may delegate its powers hereunder to grant Stock Options to persons who are not subject to Section 16(b) of the Exchange Act, to certain officers of the Corporation. Any such delegation shall be in writing and shall clearly describe any limitations to which such delegation of authority is subject.

In the event the Corporation is a "publicly held corporation" as defined in paragraph (2) of section 162(m) of the Code, as amended by the Revenue Reconciliation Act of 1993 (P.L. 103-66), and the regulations promulgated thereunder ("Section 162(m)"), the Corporation shall establish a committee of outside directors meeting the requirements of Section 162(m) to approve the grant of Stock Options which might reasonably be anticipated to result in the payment of employee remuneration that would otherwise exceed the limit on employee remuneration deductible for income tax purposes pursuant to Section 162(m).

7. Indemnification. In addition to such other rights of indemnification as they may have as directors or as members of the Committee, members of the Board of Directors of the Corporation, members of the Committee and any officers to whom authority to act for the Committee is delegated shall be indemnified by the Corporation against all reasonable expenses,

including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Corporation) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence or misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Corporation, in writing, the opportunity at its own expense to handle and defend the same.

8. Stock Options. The granting of a Stock Option shall be evidenced by a stock option agreement ("Stock Option Agreement"), in such form and not inconsistent with this Plan, as the Committee shall approve from time to time. The Committee shall determine for each Stock Option (which need not be identical), the exercise price of the Stock Option, the timing and terms of exercisability and vesting of the Stock Option, the time of expiration of the Stock Option, the effect of the Holder's termination of employment or service, whether the Stock Option is to be treated as an Incentive Stock Option or as a Nonqualified Stock Option, the method for satisfaction of any tax withholding obligation arising in connection with the Stock Option, including by the withholding or delivery of shares of Common Stock, and all other terms and conditions of the Stock Option not inconsistent with the Plan. Each Stock Option Agreement shall contain in substance the following terms and conditions:

8.1. Price. The Stock Option Agreement shall specify the Purchase Price per Share. The Purchase Price per Share deliverable upon the exercise of an Incentive Stock Option shall not be less than the Fair Market Value of a Share on the Date of Grant of the Incentive Stock Option. In the case of a grant of an Incentive Stock Option to an Employee who, at the time the Incentive Stock Option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation, or of any parent or subsidiary corporation, the Purchase Price per Share deliverable upon the exercise of the Incentive Stock Option shall not be less than one hundred ten percent (110%) of the Fair Market Value of such Share on the Date of Grant of the Incentive Stock Option. Notwithstanding the foregoing, an Incentive Stock Option may be granted with a Purchase Price lower than the minimum price set forth above if such Stock Option is granted pursuant to an assumption or substitution for another Stock Option in a manner qualifying with the provisions of Section 424(a) of the Code. The Purchase Price per Share deliverable upon exercise of a Nonqualified Stock Option shall be not less than the Fair Market Value of a Share on the Date of Grant of the Nonqualified Stock Option except that the purchase price for no more than 5% of the shares under the plan can be determined by the Committee in its sole discretion.

8.2. Number of Shares. The Stock Option Agreement shall specify the number of Shares subject to the Stock Option.

8.3. Exercisability of Stock Options. A Stock Option may be exercisable, in part or in full, at any time and from time to time during an exercise period, and subject to such performance criteria, conditions and restrictions as determined by the Committee on a case-by-case basis for each Stock Option, and as set forth in the Stock Option Agreement;

provided, however, that a Stock Option granted to a prospective employee, prospective consultant or prospective advisor shall not be exercisable prior to the date on which the person commences employment or service. In no event shall the exercise period of any Incentive Stock Option granted hereunder exceed ten (10) years from the Date of Grant of such Option; provided, however, that in the case of a grant of an Incentive Stock Option to an Employee, who, at the time the Incentive Stock Option is granted, owns stock possessing more than ten percent (10%) of the total combined voting stock of the Corporation or of any parent or subsidiary corporation, such Incentive Stock Option shall not be exercisable after the expiration of five (5) years from its Date of Grant.

In the event that the aggregate Fair Market Value (determined as of the Date of Grant) of stock with respect to which Incentive Stock Options are exercisable for the first time by an Employee during any calendar year (under all stock option plans of the Corporation and its parent or subsidiary corporations) exceeds $100,000, the excess shall be treated as a Nonqualified Stock Option. This paragraph shall be applied by taking Incentive Stock Options into account in the order in which they were granted.

8.4. Payment of Purchase Price.

(a) Forms of Payment Authorized. Payment of the Purchase Price for the number of Shares being purchased pursuant to any Stock Option shall be made (1) in cash, by check, or cash equivalent, (2) by tender to the Corporation of shares of the Corporation's Common Stock owned by the Holder having a value, as determined by the Committee (but without regard to any restrictions on transferability applicable to such stock by reason of federal or state securities laws or agreements with an underwriter for the Corporation), not less than the option price, (3) if specifically permitted by the Committee and set forth in the Holder's Stock Option Agreement, by the Holder's recourse promissory note, (4) by the assignment of the proceeds of a sale of some or all of the shares being acquired upon the exercise of a Stock Option or the proceeds of a loan with respect to the shares acquired upon the exercise of a Stock Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System), or (5) by any combination thereof. The Committee may at any time or from time to time, grant Stock Options which do not permit all of the foregoing forms of consideration to be used in payment of the option price and/or which otherwise restrict one (1) or more forms of consideration.

(b) Tender of Corporation Stock. Notwithstanding the foregoing, a Stock Option may not be exercised by tender to the Corporation of shares of the Corporation's Common Stock to the extent such tender of stock would constitute a violation of the provisions of any law, regulation and/or agreement restricting the redemption of the Corporation's stock or result in the recognition of compensation expense to the Corporation under generally accepted accounting principles. Unless otherwise provided by the Committee, a Stock Option may not be exercised by tender to the Corporation of shares of the Corporation's Common Stock unless such shares of the Corporation's common stock either have been owned by the Holder for more than six (6) months or were not acquired, directly or indirectly, from the Corporation.

(c) Promissory Notes. No promissory note shall be permitted if an exercise using a promissory note would be a violation of any law. Any permitted promissory note shall be due and payable not more than five (5) years after the Stock Option is exercised, and interest shall be payable at least annually and be at least equal to the minimum interest rate necessary to avoid imputed interest pursuant to all applicable sections of the Code. The Committee shall have the authority to permit or require the Holder to secure any promissory note used to exercise a Stock Option with the Shares acquired on exercise of the Stock Option and/or with other collateral acceptable to the Corporation. Unless otherwise provided by the Committee, in the event the Corporation at any time becomes subject to the regulations promulgated by the Board of Governors of the Federal Reserve System or any other governmental entity affecting the extension of credit in connection with the Corporation's securities, any promissory note shall comply with such applicable regulations, and the Holder shall pay the unpaid principal and accrued interest, if any, to the extent necessary to comply with such applicable regulations.

(d) Assignment of Proceeds of Sale. The Corporation reserves, at any and all times, the right, in the Corporation's sole and absolute discretion, to establish, decline to approve and/or terminate any program and/or procedures for the exercise of Stock Options by means of an assignment of the proceeds of a sale of some or all of the Shares to be acquired upon such exercise, or the assignment of the proceeds of a loan with respect to the Shares to be acquired upon such exercise.

9. Recapitalization. Appropriate adjustments shall be made in the number and class of Shares subject to the Plan, to the annual limit on Stock Options that may be granted to any individual, and to any outstanding Stock Options and in the Purchase Price per Share of any outstanding Stock Options in the event of a stock dividend, stock split, reverse stock split, combination, reclassification, or like change in the capital structure of the Corporation.

10. Reorganization. A "Reorganization" shall be deemed to have occurred in the event any of the following occurs with respect to the Corporation: (a) the direct or indirect sale or exchange by the stockholders of the Corporation of all or substantially all of the stock of the Corporation where the stockholders of the Corporation before such sale or exchange do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Corporation after such sale or exchange; (b) a merger or consolidation in which the Corporation is not the surviving corporation; (c) a merger or consolidation in which the Corporation is the surviving corporation where the stockholders of the Corporation before such merger or consolidation do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Corporation after such merger or consolidation; (d) the sale, exchange, or transfer of all or substantially all of the assets of the Corporation (other than a sale, exchange, or transfer to one (1) or more subsidiary corporations (as defined in paragraph 2.2 above) of the Corporation); or (e) a liquidation or dissolution of the Corporation.

In the event of a Reorganization, the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the "Acquiring Corporation"), may assume the Corporation's rights and obligations under outstanding Stock Options or substitute options for the Acquiring Corporation's stock for such outstanding Stock Options. In the event the Acquiring Corporation elects not to assume or substitute for such outstanding Stock Options in connection with the Reorganization, any unexercisable and/or unvested portion of the outstanding

Stock Options shall be immediately exercisable and vested as of the date thirty (30) days prior to the date of the Reorganization. The exercise and/or vesting of any Stock Option that was permissible solely by reason of this paragraph 10 shall be conditioned upon the consummation of the Reorganization. Any Stock Options which are neither assumed or substituted for by the Acquiring Corporation in connection with the Reorganization nor exercised as of the date of the Reorganization shall terminate and cease to be outstanding effective as of the date of the Reorganization.

11. Investment Representations. The Committee may require a Holder to whom a Stock Option is granted, as a condition of receipt and/or exercise of the Stock Option, to give written assurances in substance and form satisfactory to the Committee to the effect that the Holder is acquiring the Stock Option granted hereunder or the Shares issuable upon exercise thereof for the Holder's own account and not with any present intention of selling or otherwise distributing the same, and to such other effects as the Committee deems necessary or appropriate in order to comply with federal and applicable state securities laws. Appropriate legends may be placed on any Shares issued under the Plan evidencing such representations.

12. Compliance With Securities Laws. Each Stock Option granted hereunder shall be subject to the requirement that, if at any time the Committee, in its discretion, shall determine that the listing, registration or qualification of the Shares subject to such Stock Option upon any securities exchange or under any state or federal law, or the consent or approval of any government or regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such Stock Option granted hereunder or the issue of Shares, such Stock Option may not be granted or exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. Nothing in the Plan or related Stock Option Agreements shall be deemed to require the Corporation to apply for or obtain such listing, registration or qualification.

13. Rights as a Stockholder. A Holder shall have no rights as a stockholder of the Corporation with respect to any Shares covered by a Stock Option granted hereunder until said Holder tenders an effective and unconditional notice of exercise of the Stock Option to the Corporation, complies with all other terms and conditions of exercise and, if applicable, pays the Purchase Price. Except as otherwise expressly provided in the Plan, no adjustment shall be made for dividends or other rights for which the record date is prior to the date on which the Holder tenders notice of exercise, complies with all other terms and conditions of exercise, and pays any applicable Purchase Price. The Committee shall use its best efforts to secure prompt issuance of stock certificates following full performance of exercise by any Holder.

14. Non-Assignability of Options. No Incentive Stock Option shall be assignable or transferable by the Holder except by will or by the laws of descent and distribution. During the life of the Holder, an Incentive Stock Option shall be exercisable only by the Holder or by the duly appointed legal representative of an incompetent Holder. A Nonqualified Stock Option may be assignable or transferable to the extent set forth in the Stock Option Agreement governing such Stock Option.

15. Withholding Taxes. The Corporation shall have the right to deduct from amounts otherwise due Holder under a Stock Option granted hereunder or from any wages or other compensation to be paid to Holder any sums required by federal, state and local tax law to be

withheld with respect to the exercise of any Stock Option or with respect to the disposition of Shares issued hereunder or, in the alternative, to require the Holder to pay such sums to the Corporation. The Corporation may also retain any certificate representing Shares issuable upon exercise of Stock Options until all such tax withholding requirements are satisfied. The Corporation may, in its discretion and upon request by Holder, withhold from the Shares to be issued to Holder under this Plan a number of Shares (based on the Fair Market Value of the Shares on the date of exercise of the Stock Option) necessary to satisfy any tax withholding requirements.

16. Termination or Amendment of the Plan and Stock Options. The Committee may terminate or amend the Plan or any Stock Option at any time; except that, without stockholder approval, the Committee may not increase the number of Shares which may be issued under the Plan (except by operation of paragraph 9) or modify the requirements as to eligibility to receive Incentive Stock Options under the Plan. In addition, the approval of the Corporation's stockholders shall be sought for any amendment to the Plan or a Stock Option for which the Committee deems stockholder approval necessary in order to comply with Rule 16b-3. In any event, no amendment may adversely affect any then outstanding Stock Option or any unexercised portion thereof, without the consent of the Holder, unless such amendment is required to enable a Stock Option designated as an Incentive Stock Option to qualify as an Incentive Stock Option.

17. No Special Employment Rights. Nothing contained in this Plan or in any Stock Option granted hereunder shall confer upon any Holder any right with respect to continued employment or engagement with the Corporation or interfere in any way with the right of the Corporation, subject to the terms of any separate agreement with the Holder to the contrary, at any time to terminate such employment or engagement or to increase or decrease the compensation or other benefits paid to the Holder.

18. Governing Law. This Plan and any Stock Options issued hereunder shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned Secretary of the Corporation certifies that the foregoing Cohu, Inc. 1998 Stock Option Plan was duly adopted by the Board of Directors of the Corporation on January 29, 1998 and amended on January 26, 2000 and January 29, 2002.

/s/ John H. Allen

John H. Allen

Exhibit 10.3

FIRST AMENDMENT TO AND EXTENSION OF NON-RECOURSE
PROMISSORY NOTE SECURED BY DEED OF TRUST

This First Amendment to and Extension of Non-Recourse Promissory Note Secured by Deed of Trust ("Amendment") is made this 11th day of April, 2002 by and between TC KEARNY VILLA LP, a Delaware limited partnership ("Borrower"), and DELTA DESIGN, INC., a Delaware corporation ("Lender").

RECITALS

A. Lender made a loan to Borrower in the original principal amount of Nine Million Three Hundred Seventy-Five Thousand and 00/100 Dollars ($9,375,000.00) (the "Loan"), evidenced by that certain Non-Recourse Promissory Note Secured by Deed of Trust dated April 11, 2001 (the "Note"), and secured by a Deed of Trust With Assignment of Rents (the "Deed of Trust"), recorded on April 16, 2001 as Document Number 2001-0231974 in the San Diego County Recorder's Office, encumbering certain real property owned by Trustor, as more particularly described in the Deed of Trust.

B. Borrower and Lender have agreed, among other things, to extend the Maturity Date (as defined in the Note), and to amend the Note, subject to the terms and conditions set forth herein.

C. Capitalized terms used but not defined herein shall have their meanings set forth in the Note.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

(1) Maturity Date. The "Maturity Date" under the Note is hereby revised to mean March 31, 2003, and, accordingly, notwithstanding anything to the contrary contained in the Note, Deed of Trust, or any other document, the then outstanding principal balance of the Note, together with all interest unpaid and accrued thereon shall be due and payable on March 31, 2003.

(2) Borrower Payments. Concurrently upon Borrower's execution of this Amendment, in consideration of the extension granted herein, Borrower shall pay to Lender the amount of One Hundred Ninety Thousand Nine Hundred Ninety-Five and 12/100 Dollars ($190,995.12) as a reduction of principal owing under the Note, which amount represents principal for the period from April 11, 2001 through April 10, 2002, assuming a 20 year amortization schedule (Borrower shall not be required to pay any additional amounts in consideration of the extension). Accordingly, from and after the date hereof, the outstanding principal balance of the Note will equal Nine Million One Hundred Eighty-Four Thousand Five Hundred Fourteen and 88/100 Dollars ($9,184,004.88) (unless and until the principal balance of the Note is further reduced, if at all, in which event , the interest payments under the Note shall be reduced accordingly). Notwithstanding the foregoing, Borrower shall not be obligated to pre-pay any additional amounts with respect to the principal balance of the

Note or otherwise, and payments under the Note shall remain as interest only payments (on the then outstanding principal amount of the Note), as set forth in Section 2 (a) of the Note.

(3) Facsimile. Each party hereto, and its respective successors and assigns shall be authorized to rely upon the signatures of all of the parties hereto on this Amendment which are delivered by facsimile as constituting a duly authorized, irrevocable, actual, current delivery of this Amendment with original ink signatures of each person and entity.

(4) Governing Law. This Amendment shall be construed and enforced in accordance with the laws of the State of California.

(5) Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, and all of which when taken together, shall constitute one and the same instrument.

(6) Note in Full Force. Except as set forth herein, the terms and conditions of the Note shall remain unmodified and in full force and effect, and nothing contained herein shall be deemed to increase the amounts owing under the Loan, Note or Deed of Trust.

(7) Authority. Borrower and Lender each have, or will have, the legal power, right and authority to enter into Amendment and to consummate the transactions contemplated hereby. Borrower and Lender each represent and warrant to the other that each individual executing this Amendment has the legal power, right and actual authority to execute this Amendment and to bind Borrower and Lender, as applicable, to the terms and conditional hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Modification as of the date first written above.

"BORROWER"

TC KEARNY VILLA LP,
a Delaware limited partnership

By: Trammell Crow So. Cal., Inc.,
a Delaware corporation

By: /s/ Dorsey B. Abshier

Name: Dorsey B. Abshier

Its: Vice President

"LENDER"

DELTA DESIGN, INC.,
a Delaware corporation

By: /s/ John H. Allen

Name: John H. Allen

Its: Vice President
