

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1996

OR

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

COMMISSION FILE NUMBER 1-4298

COHU, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

95-1934119

(State or other jurisdiction of
Incorporation or Organization)

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

5755 KEARNY VILLA ROAD, SAN DIEGO, CALIFORNIA

92123

(Address of principal executive office)

(Zip Code)

Registrant's telephone number, including area code (619) 277-6700

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

Yes No

As of September 30, 1996, the Registrant had 9,295,701 shares of its \$1.00 par value common stock outstanding.

COHU, INC.
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FORM 10-Q
SEPTEMBER 30, 1996

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

ASSETS	SEPTEMBER 30, 1996	DECEMBER 31, 1995
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 45,360	\$ 28,874
Accounts receivable, less allowance for doubtful accounts	22,353	27,572
Inventories, at lower of average cost or market:		
Finished goods	3,652	3,466
Work in process	4,159	7,759
Raw materials and purchased parts	8,769	10,019
	-----	-----
	16,580	21,244
Deferred income taxes	9,413	9,413
Prepaid expenses	955	973
	-----	-----
Total current assets	94,661	88,076
Property, plant and equipment, at cost:		
Land and land improvements	2,114	1,150
Buildings and building improvements	11,723	10,355
Machinery and equipment	14,008	11,697
	-----	-----
	27,845	23,202
Less accumulated depreciation and amortization	11,140	10,031
	-----	-----
Net property, plant and equipment	16,705	13,171
Goodwill, net	2,508	2,626
Other assets	61	61
	-----	-----
	\$113,935	\$103,934
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,285	\$ 7,453
Income taxes payable	2,917	7,062
Other accrued liabilities	14,463	16,333
	-----	-----
Total current liabilities	20,665	30,848
Accrued retiree medical benefits	925	859
Deferred income taxes	198	198
Stockholders' equity:		
Preferred stock	--	--
Common stock	9,296	9,092
Paid in excess of par	4,890	4,252
Retained earnings	77,961	58,685
	-----	-----
Total stockholders' equity	92,147	72,029
	-----	-----
	\$113,935	\$103,934
	=====	=====

See accompanying notes.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
Net sales	\$34,763	\$49,035	\$130,859	\$ 126,429
Cost and expenses:				
Cost of sales	19,887	30,130	72,033	77,975
Research and development	3,340	2,635	10,691	7,560
Selling, general and administrative	3,758	5,808	16,061	16,727
Income from operations	7,778	10,462	32,074	24,167
Interest income	513	238	1,293	365
Interest expense	--	--	--	(12)
Income before income taxes	8,291	10,700	33,367	24,520
Provision for income taxes	3,100	4,200	12,700	9,600
Net income	\$ 5,191	\$ 6,500	\$ 20,667	\$ 14,920
Net income per share	\$.54	\$.67	\$ 2.13	\$ 1.56
Average common shares and equivalents	9,642	9,670	9,683	9,535

See accompanying notes.

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

	NINE MONTHS ENDED	
	SEPTEMBER 30,	
	1996	1995
	-----	-----
Cash flows from operating activities:		
Net income	\$ 20,667	\$ 14,920
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	1,254	1,457
Purchase consideration to be paid in stock	606	--
Increase in accrued retiree medical benefits	66	43
Changes in assets and liabilities:		
Accounts receivable	5,219	(7,637)
Inventories	4,664	2,997
Prepaid expenses	18	16
Accounts payable	(4,168)	6,448
Income taxes payable	(4,145)	(1,337)
Other accrued liabilities	(2,476)	2,891
	-----	-----
Net cash provided from operating activities	21,705	19,798
Cash flows from investing activities:		
Purchases of property, plant, equipment and other assets	(4,670)	(770)
	-----	-----
Net cash used for investing activities	(4,670)	(770)
Cash flows from financing activities:		
Reduction in long-term borrowings	--	(1,400)
Issuance of stock, net	842	699
Cash dividends	(1,391)	(1,032)
	-----	-----
Net cash used for financing activities	(549)	(1,733)
	-----	-----
Net increase in cash and cash equivalents	16,486	17,295
Cash and cash equivalents at beginning of period	28,874	3,096
	-----	-----
Cash and cash equivalents at end of period	\$ 45,360	\$ 20,391
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 16,821	\$ 10,901
Interest	--	12

See accompanying notes.

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996

- 1 - The accompanying interim financial statements are unaudited but include all adjustments (consisting of normal recurring adjustments) which the Company considers necessary for a fair statement of the results for the period. The operating results for the three and nine months ended September 30, 1996 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, 1995. Reclassification has been made to certain prior year and period amounts to conform to the 1996 presentation.
- 2 - Per share information is based on the weighted average number of shares outstanding during each period and the dilutive effect of the assumed exercise of stock options.
- 3 - In May 1996, the Company entered into a \$5,000,000 unsecured bank line of credit agreement with its primary bank. The agreement expires in May 1998 and requires compliance with certain financial covenants. No borrowings were outstanding at September 30, 1996.
- 4 - In May 1996, Cohu, Inc. stockholders approved an increase in the Company's authorized shares of common stock from 10,000,000 to 25,000,000 shares and the adoption of the Cohu, Inc. 1996 Stock Option Plan providing for the issuance of up to 450,000 shares of common stock.

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

RESULTS OF OPERATIONS

THIRD QUARTER 1996 COMPARED TO THIRD QUARTER 1995

Net sales decreased 29% to \$34.8 million in the third quarter of 1996 compared to net sales of \$49.0 million in the third quarter of 1995. Sales of semiconductor test handling equipment declined 34% in the third quarter of 1996 compared to the third quarter of 1995 and accounted for 78% of consolidated net sales in the third quarter of 1996. Sales of television cameras and equipment decreased 6% while the combined sales of metal detection and microwave equipment decreased 9% compared to 1995. Gross margin as a percentage of net sales improved to 43% in the third quarter of 1996 versus 39% in 1995, primarily as a result of improved margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins improved due to a significant reduction in provisions for excess and obsolete inventories. Research and development expense as a percentage of net sales was 10% in the third quarter of 1996 up from 5% in 1995 and reflected the Company's continued investment in new product development in the semiconductor equipment business. Selling, general and administrative expense decreased as a percentage of net sales from 12% to 11% in part due to a reduction in certain performance based compensation charges in the 1996 period. Interest income in the quarter increased to \$.5 million due to the significant increase in cash and cash equivalents. The provision for income taxes expressed as a percentage of pre-tax income was 37% in the third quarter of 1996 and 39% for the year ended December 31, 1995. For the third quarter, as a result of the factors set forth above, net income decreased 20% to \$5.2 million in 1996 from \$6.5 million in 1995.

NINE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1995

Net sales increased 4% to \$130.9 million in the first nine months of 1996 compared to net sales of \$126.4 million in the first nine months of 1995. Despite the sales decline in the third quarter, sales of semiconductor test handling equipment increased an aggregate of 4% over sales in the first nine months of 1995 and accounted for 81% of consolidated net sales in the first nine months of 1996. Sales of television cameras and equipment and the combined sales of metal detection and microwave equipment in the first nine months of 1996 increased 3% and 2%, respectively, over 1995. Gross margin as a percentage of net sales improved to 45% in the first nine months of 1996 versus 38% in the first nine months of 1995, primarily as a result of improved margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins improved due to a significant reduction in provisions for excess and obsolete inventories and, to a lesser extent, production efficiencies. Research and development expense as a percentage of net sales increased to 8% in the first nine months of 1996 from 6% in 1995 and reflected the Company's continued investment in new product development in the semiconductor equipment business. Selling, general and administrative expense decreased as a percentage of net sales from 13% to 12% in part due to a reduction in certain performance based compensation charges in the 1996 period. Interest income in the period increased to \$1.3 million due to the significant increase in cash and cash equivalents. The provision for income taxes expressed as a percentage of pre-tax income was 38% in the first nine months of 1996 down from 39% for the year ended December 31, 1995. For the nine month period, as a result of the factors set forth above, net income increased 39% to \$20.7 million in 1996 from \$14.9 million in 1995.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (cont.)

LIQUIDITY AND CAPITAL RESOURCES

The Company's net cash flows generated from operating activities in the first nine months of 1996 totaled \$21.7 million. The major components of cash flows from operating activities were net income of \$20.7 million and decreases in accounts receivable of \$5.2 million and inventories of \$4.7 million offset by decreases in accounts payable, income taxes payable and other accrued liabilities totaling \$10.8 million. Net cash used for investing activities was \$4.7 million and was used for the purchase of property, plant and equipment. Net cash used for financing activities was \$.5 million. Cash used for financing activities included \$1.4 million for the payment of dividends offset by \$.8 million received from the issuance of stock upon the exercise of stock options. The Company has \$5 million available under its bank line of credit and working capital of \$74 million at September 30, 1996. It is anticipated that present working capital and cash generated from operations will be sufficient to meet the Company's 1996 operating requirements and the remaining anticipated capital expenditures for 1996 of approximately \$1 million.

BUSINESS RISKS AND UNCERTAINTIES

The Company's operating results are substantially dependent on the semiconductor test handling equipment business conducted through its Delta Design and Daymarc subsidiaries. This capital equipment business is in turn highly dependent on the overall strength of the semiconductor industry. Historically, the semiconductor industry has been highly cyclical with recurring periods of oversupply, which often have had a significant effect on the semiconductor industry's demand for capital equipment, including equipment of the type manufactured and marketed by the Company. The Company believes that the markets for newer generations of semiconductors may also be subject to similar fluctuations. Reductions in capital equipment investment by semiconductor manufacturers adversely affect the Company's results of operations.

The Company's order backlog declined to \$27.3 million at September 30, 1996 from \$45.4 million at December 31, 1995. This reduction in backlog is principally related to the Company's semiconductor equipment business. The decline in the Company's backlog and announcements by certain semiconductor and semiconductor equipment manufacturers indicate there has been a slowdown in demand for semiconductor related equipment including equipment of the type manufactured and marketed by the Company. In addition, continued DRAM price declines in recent months have negatively impacted the profitability of DRAM manufacturers which has impacted capital equipment purchases. These factors negatively affected the Company's operating results in the third quarter of 1996. The recovery in the semiconductor equipment business is not expected for some time and the reduced level of backlog indicates that the Company's downward trend in sales and net income will continue in the 1996 fourth quarter.

Earlier in 1996, in response to the changing environment in the semiconductor equipment industry, the Company reduced its work force. The Company will attempt to keep its production capacity, labor force and other aspects of its cost structure in line with expected demand. If the slowdown in the semiconductor equipment industry continues, it is likely that the Company will further reduce its work force. Cost reduction programs may have a temporary negative impact on the Company's operations and operating results. Furthermore, no assurance can be made that such cost reduction programs will be implemented successfully.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (cont.)

As is common in the semiconductor equipment industry, the Company relies on a limited number of customers for a substantial percentage of its net sales (two customers accounted for approximately 28% of net sales in the first nine months of 1996 and also 35% of net sales for the year ended December 31, 1995). The loss of or a significant reduction in orders by either of these or other significant customers not compensated for by other customer orders would adversely impact the Company's results of operations.

Semiconductor equipment and processes are subject to rapid technological change. The Company believes that its future success will depend in part on its ability to enhance existing products and develop new products that enable semiconductor manufacturers to more efficiently handle and test semiconductors. Failure to introduce new products in a timely manner, the introduction by competitors of products with perceived or actual advantages or disputes over rights of the Company or its competitors to use certain intellectual property or technology could result in a loss of competitive position and reduced sales of existing products. The Company expects to continue to invest heavily in research and development and must manage product transitions successfully as introductions of new products could adversely impact sales of existing products.

Due to these and other factors, historical results may not necessarily be indicative of results of operations for any future period. In addition, certain matters discussed above are forward looking statements that are subject to the risks and uncertainties noted herein and the other risks and uncertainties listed from time to time in the Company's filings with the Securities and Exchange Commission, including but not limited to the 1995 Annual Report on Form 10-K, that could cause actual results to differ materially from those projected or forecasted. The Company undertakes no obligation to update the information, including the forward looking statements, in this Form 10-Q.

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

(A) Exhibits:

3(i) - Certificate of Amendment of Restated Certificate of
Incorporation

27.1 - Financial Data Schedule

(B) Reports on Form 8-K: The Company did not file any reports on Form
8-K during the quarter ended September 30, 1996.

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: October 30, 1996

/s/ Charles A. Schwan

Charles A. Schwan
President & Chief Executive Officer
(Principal Executive Officer)

Date: October 30, 1996

/s/ John H. Allen

John H. Allen
Vice President, Finance & Chief
Financial Officer
(Principal Financial and Accounting
Officer)

CERTIFICATE OF AMENDMENT
OF
RESTATED CERTIFICATE OF INCORPORATION

Cohu, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Company"),

DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of the Company, resolutions were duly adopted setting forth a proposed amendment of the Restated Certificate of Incorporation of the Company, declaring said amendment to be advisable and calling a meeting of the stockholders of the Company for consideration thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that the Restated Certificate of Incorporation of the Company be amended by changing the first paragraph of Article Fourth so that, as amended, said paragraph shall be and read as follows:

"FOURTH: The total number of shares of all classes of stock which the corporation shall have authority to issue is Twenty- six Million (26,000,000) of which 1,000,000 shares shall constitute Preferred Stock having a par value of \$1.00 per share and 25,000,000 shares shall constitute Common Stock having a par value of \$1.00 per share."

SECOND: That thereafter, pursuant to resolution of its Board of Directors, a special meeting of the stockholders of the Company was duly called and held, upon notice in accordance with Section 222 of the General Corporation law of the State of Delaware, at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Company has caused this certificate to be signed by Charles A. Schwan , its President, and John H. Allen , its Secretary, this 7th day of May , 1996.

By: /s/ Charles A. Schwan

President

ATTEST: /s/ John H. Allen

Secretary

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM 1995 AND 1996 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS	
DEC-31-1995	
JAN-01-1996	
SEP-30-1996	
	45,360
	0
	22,353
	0
	16,580
94,661	
	27,845
	11,140
	113,935
20,665	
	0
0	
	0
	9,296
	82,851
113,935	
	130,859
130,859	
	72,033
	72,033
	0
	0
	0
	33,367
	12,700
20,667	
	0
	0
	0
	20,667
	2.13
	2.13