UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2004

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 [ü] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ü] No [ ]

As of September 30, 2004 the Registrant had 21,549,369 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)

	September 30, 2004	December 31, 2003 *
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,509	$ 7,127
Short-term investments	104,953	100,493
Accounts receivable, less allowance for doubtful accounts of $1,571 in 2004 and $1,177 in 2003	41,884	25,578
Inventories:		
Raw materials and purchased parts	23,190	18,159
Work in process	10,562	8,238
Finished goods	7,784	5,239
	41,536	31,636
Deferred income taxes	3,553	3,553
Other current assets	3,105	3,151
Total current assets	205,540	171,538
Note receivable	—	8,978
Property, plant and equipment, at cost:		
Land and land improvements	7,978	7,978
Buildings and building improvements	25,252	25,055
Machinery and equipment	25,355	23,948
	58,585	56,981
Less accumulated depreciation and amortization	(28,609)	(26,298)
Net property, plant and equipment	29,976	30,683
Goodwill	8,340	8,340
Other intangible assets, net of accumulated amortization of $1,054 in 2004 and $642 in 2003	596	1,008
Other assets	191	183
	$244,643	$220,730
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,259	$ 7,250
Accrued compensation and benefits	8,241	5,986
Accrued warranty	4,728	3,479
Customer advances	1,077	402
Deferred profit	11,130	4,132
Income taxes payable	1,682	2,090
Other accrued liabilities	3,656	3,478
Total current liabilities	37,773	26,817
Accrued retiree medical benefits	1,297	1,267
Deferred income taxes	416	416
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, 21,549 shares issued and outstanding in 2004 and 21,375 shares in 2003	21,549	21,375
Paid in capital	23,969	22,140
Retained earnings	159,709	148,691
Accumulated other comprehensive income (loss)	(70)	24
Total stockholders' equity	205,157	192,230
	$244,643	$220,730

* Derived from December 31, 2003 audited financial statements.

The accompanying notes are an integral part of these statements.

COHU, INC.

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

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net sales	$54,869	$34,512	$138,145	$ 97,675
Cost and expenses:				
Cost of sales	34,503	23,986	81,945	65,791
Research and development	7,188	5,577	19,948	18,071
Selling, general and administrative	7,666	6,347	21,756	18,290
	49,357	35,910	123,649	102,152
Income (loss) from operations	5,512	(1,398)	14,496	(4,477)
Gain from sale of land held for future development	—	—	—	7,873
Investment impairment writedown	—	—	—	(2,500)
Interest income	390	683	1,346	1,825
Income (loss) before income taxes	5,902	(715)	15,842	2,721
Income tax provision (benefit)	700	(100)	1,600	600
Net income (loss)	$ 5,202	$ (615)	$ 14,242	$ 2,121
Income (loss) per share:				
Basic	$ 0.24	$ (0.03)	$ 0.66	$ 0.10
Diluted	$ 0.24	$ (0.03)	$ 0.65	$ 0.10
Weighted average shares used in computing income (loss) per share:				
Basic	21,538	21,255	21,480	21,088
Diluted	21,912	21,255	21,988	21,619
Cash dividends declared per share	$ 0.05	$ 0.05	$ 0.15	$ 0.15

The accompanying notes are an integral part of these statements.

COHU, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Cash flows from operating activities:		
Net income	$ 14,242	$ 2,121
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	2,951	3,103
Gain from sale of land held for future development	—	(7,873)
Loss on equipment disposals	—	195
Investment impairment writedown	—	2,500
Increase in accrued retiree medical benefits	30	85
Changes in current assets and liabilities:		
Accounts receivable	(16,306)	(7,132)
Inventories	(9,900)	(5,523)
Other current assets	46	481
Accounts payable	9	897
Customer advances	675	(2,492)
Deferred profit	6,998	2,614
Income taxes payable	(408)	—
Accrued compensation, warranty and other liabilities	3,682	2,313
Net cash provided from (used for) operating activities	2,019	(8,711)
Cash flows from investing activities:		
Purchases of short-term investments	(117,583)	(112,776)
Sales and maturities of short-term investments	113,029	85,388
Net proceeds from sale of land held for future development	—	8,837
Purchases of property, plant and equipment	(1,832)	(1,124)
Payments on note receivable	8,978	206
Other assets	(8)	2
Net cash provided from (used for) investing activities	2,584	(19,467)
Cash flows from financing activities:		
Issuance of stock, net	2,003	4,752
Cash dividends	(3,224)	(3,172)
Net cash provided from (used for) financing activities	(1,221)	1,580
Net increase (decrease) in cash and cash equivalents	3,382	(26,598)
Cash and cash equivalents at beginning of period	7,127	32,696
Cash and cash equivalents at end of period	$ 10,509	$ 6,098
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Income taxes, net of refunds	$ 2,039	$ (32)

The accompanying notes are an integral part of these statements.

COHU, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2004

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. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2003 and management's discussion and analysis of financial condition and results of operations included elsewhere herein. The operating results for the three and nine months ended September 30, 2004, are not necessarily indicative of the operating results for the entire year or any future period.

Revenue Recognition

Cohu's revenue recognition policy is disclosed in Note 1 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. As more fully described in that policy, revenue from products that have not previously satisfied customer acceptance is recognized upon customer acceptance. The gross profit on sales that are not recognized is generally recorded as deferred profit and reflected as a current liability in the consolidated balance sheet.

The Company has an $8.5 million contract to provide microwave communications equipment for a border security command center and infrastructure system in the United Arab Emirates. The contract, which utilizes the Company's most advanced microwave communications technology that has not been previously installed in an application of this size and complexity, requires that 40% of the total contract price be paid after the system has been fully accepted by the customer. As a result of these factors and the inability to make reasonably dependable estimates of progress toward completion and acceptance, the Company will recognize revenue and related costs under this contract in the period the system is accepted by the customer. Through September 30, 2004, the Company had deferred approximately $6.0 million of revenue under this contract.

At September 30, 2004, the Company had total deferred revenue of approximately $22.4 million and deferred profit of $11.1 million. At December 31, 2003, the Company had total deferred revenue of approximately $9.3 million and deferred profit of $4.1 million. The increase in deferred revenue and profit is primarily related to the deferral of revenue on certain new semiconductor test handlers and microwave communications equipment that have been shipped and installed and are awaiting customer acceptance.

Stock-Based Compensation

Cohu has several stock-based compensation plans that are described more fully in Note 10 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. No stock-based employee compensation cost is reflected in the consolidated statements of operations, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The proforma information presented in the following table illustrates the effect on net income (loss) and net income (loss) per share if Cohu had applied the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement No. 123, *Accounting for Stock-Based Compensation,* as amended by FASB 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*, to stock-based employee compensation.

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2004

	Three months ended September 30,		Nine months ended September 30,	
(in thousands, except per share amounts)	**2004**	**2003**	**2004**	**2003**
Net income (loss), as reported	$5,202	$ (615)	$14,242	$ 2,121
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(985)	(822)	(2,902)	(2,296)
Pro forma net income (loss)	$4,217	$(1,437)	$11,340	$ (175)
Net income (loss) per share:				
Basic-as reported	$ 0.24	$ (0.03)	$ 0.66	$ 0.10
Basic-pro forma	$ 0.20	$ (0.07)	$ 0.53	$ (0.01)
Diluted-as reported	$ 0.24	$ (0.03)	$ 0.65	$ 0.10
Diluted-pro forma	$ 0.19	$ (0.07)	$ 0.52	$ (0.01)

Retiree Medical Benefits

Cohu provides post-retirement health benefits to certain executives and directors under a noncontributory plan. The net periodic benefit cost during the three and nine month periods ended September 30, 2004 and 2003 was not significant.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted on December 8, 2003. In accordance with FASB Staff Position ("FSP") No. FAS 106-1, the accumulated post-retirement benefit obligation and net periodic benefit cost in the consolidated financial statements do not reflect the effects, if any, of the Act. In April 2004, the FASB staff issued FSP FAS 106-2, which supercedes FSP FAS 106-1. FSP FAS 106-2 applies to sponsors of single-employer defined benefit postretirement health care plans for which (a) the employer has concluded that prescription drug benefits available under the plan are "actuarially equivalent" to Medicare Part D and thus qualify for the subsidy under the Act and (b) the expected subsidy will offset or reduce the employer's share of the cost of the underlying postretirement prescription drug coverage on which the subsidy is based. In general, FSP FAS 106-2 concludes that the plan sponsors should follow FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, in accounting for the effects of the Act. For employers, including Cohu, that have elected deferral under FSP FAS 106-1, this guidance is effective for the first interim period beginning after June 15, 2004. The effects of the Act are not significant to Cohu and as a result, the adoption of FSP FAS 106-2 in the quarter ended September 30, 2004 did not have a significant impact on the Company's financial statements.

Recent Accounting Pronouncement

During March 2004, the FASB issued an exposure draft of a new standard entitled *Share Based Payment*, which would amend SFAS No. 123, *Accounting for Stock Based Compensation*, and SFAS No. 95, *Statement of Cash Flows*. Among other items, the new standard would require the expensing, in the financial statements, of stock options issued by the Company. The new standard, as proposed, would be effective for periods beginning after June 15, 2005.

Throughout most of 2004, the FASB has continued to deliberate on different aspects of a new standard, and currently expects to issue a final standard in the fourth quarter 2004. Although the Company has not yet completed an analysis to quantify the exact impact the new standard will have on its future financial performance, the disclosures in Note 1 provide detail as to the Company's financial performance as if the

COHU, INC.
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Company had applied the fair-value based method and recognition provisions of SFAS No. 123 to stock-based employee compensation to the current reporting periods.

2. 2004 Results of Operations

In February 2004, the Company and a foreign sales representative amended a Product Representation Agreement that was originally entered into on April 1, 2003. The amendment reduced the commissions to be paid by the Company to the sales representative on certain previously recorded and future sales. In the quarter ended March 31, 2004, the Company reduced commission expense by $129,000 and $103,000, for commissions previously expensed in 2003 and 2004, respectively. Accordingly, selling, general and administrative expense in the accompanying statement of operations for the nine months ended September 30, 2004 has been reduced by $232,000 as a result of this amendment.

In 2003, the Company recorded a charge to cost of sales of approximately $1,700,000 as a result of inventory market valuation writedowns. In 2004, the Company sold certain of the written down inventory and as a result the Company's cost of sales and the related gross profit was favorably impacted by approximately $150,000 and $1,200,000 for the three and nine months ended September 30, 2004, respectively.

In 2001 and 2002, the Company accrued approximately $1.2 million for potential customer sales credits and this amount was included in accounts payable at June 30, 2004 and December 31, 2003. The Company accounted for these sales credits in accordance with Emerging Issues Task Force Issue 01-9, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)*, by recording reductions to revenue equal to the maximum amount of the potential sales credits. During the quarter ended September 30, 2004, these sales credits expired and as a result, the $1.2 million liability was eliminated with a corresponding credit to net sales.

3. Income (Loss) Per Share

Income (loss) per share is computed in accordance with 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 per share includes the dilutive effect of common shares potentially issuable upon the exercise of stock options. For purposes of computing diluted income 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 nine months ended September 30, 2004, options to purchase approximately 864,000 and 528,000 shares of common stock were excluded from the computation, respectively. For the nine months ended September 30, 2003, options to purchase approximately 219,000 shares of common stock were excluded from the computation, respectively. The following table reconciles the denominators used in computing basic and diluted income per share:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	**2004**	**2003**	**2004**	**2003**
Weighted average common shares outstanding	21,538	21,255	21,480	21,088
Effect of dilutive stock options	374	—	508	531
	21,912	21,255	21,988	21,619

4. Income Taxes

The income tax provision (benefit) included in the statements of operations for the three and nine months ended September 30, 2004 and 2003, is based on the estimated annual effective tax rate for the entire year. These estimated effective tax rates are subject to adjustment in subsequent quarterly periods as the Company's estimates of pretax income or loss for the year are increased or decreased. The effective tax rate for the three and nine months ended September 30, 2004 is less than the U.S. federal statutory rate primarily due to the significant deferred tax asset valuation allowance recorded at December 31, 2003.

In accordance with FASB Statement No. 109, *Accounting for Income Taxes*, net deferred tax assets are reduced by a valuation allowance, if based on all the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. A valuation allowance of $11,704,000 had been provided on deferred tax assets at December 31, 2003, primarily due to uncertainties of realizing net deferred tax assets after considering the impact of income taxes to be generated from future income and certain tax planning strategies. The Company determined that the valuation allowance was required based upon its recent losses, and the likelihood of generating sufficient additional taxable income in future years to obtain benefit from the reversal of temporary differences and net operating loss and tax credit carryforwards.

At September 30, 2004, the Company reassessed the appropriateness of the valuation allowance. We concluded that, despite the improvement in operating results that were significantly better than forecast, it would be premature to reverse the valuation allowance that existed at December 31, 2003 other than to the extent necessary to reduce current tax expense generated by 2004 income. The Company will continue to assess the appropriateness of the valuation allowance in the fourth quarter of 2004. The Company may adjust the allowance if, based on a careful assessment of business prospects and estimates of future income, the Company concludes that all or a portion of the allowance is no longer required. A reduction in the allowance would result in a corresponding credit to income tax expense.

The IRS is conducting a routine examination of Cohu's consolidated tax returns for the period 2000 through 2002. The Company expects the IRS examination to be completed in 2004. If the examination is concluded in 2004, any adjustments that result from the IRS examination will be reflected in the Company's 2004 results of operations. The Company believes that such adjustments, if any, are adequately provided for in the consolidated financial statements. A favorable outcome from the examination may result in a credit to income tax expense while an unfavorable outcome may result in an increase to income tax expense in the quarter the examination is concluded.

The Company has derived significant tax benefits from the research credit under Section 41 of the Internal Revenue Code and the Extraterritorial Income Exclusion (ETI). The President signed legislation extending the research credit through December 31, 2005, repealing the ETI regime, which the World Trade Organization (WTO) had ruled an illegal export subsidy, and approved tax relief for U.S. based manufacturing activities. The recently signed legislation repeals the ETI exclusion for transactions entered into after December 31, 2004 subject to a phase-out that would allow the company to claim full ETI benefits in 2004, 80% of the benefits in 2005 and 60% in 2006 and created a deduction for domestic manufacturing activities, with a phased in rate beginning in 2005. It is not currently known the extent that the Company will be able to realize the benefit from the domestic manufacturing deduction in future years and whether the provision could partly or entirely replace the lost ETI benefit.

5. Goodwill, Investments and Other Intangible Assets

In June 2001, the FASB issued Statement No. 142*, Goodwill and Other Intangible Assets*. Under Statement No. 142, goodwill and other intangible assets with indefinite useful lives are not amortized, but are reviewed annually for impairment or more frequently if impairment indicators arise. Separable intangible assets that have finite lives are amortized over their useful lives. Under Statement No. 142, goodwill and other intangible assets with indefinite useful lives resulting from acquisitions completed after June 30, 2001 are not amortized. At September 30, 2004, the Company had goodwill of $8.3 million that resulted from an acquisition completed in July 2001.

The Company performed the required annual goodwill impairment test as of October 1, 2004. Cohu did not recognize any goodwill impairment as a result of performing this annual test. A future decline in the fair value of Cohu's semiconductor equipment business may indicate goodwill impairment that could result in a charge to Cohu's future operating results.

In August 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. Cohu adopted Statement No. 144 effective January 1, 2002.

In the fourth quarter of 2002, Cohu entered into a $1,700,000 license agreement for certain intellectual property and know-how from LiveTools Technology SA. The Company is amortizing the intangible asset to expense over the three-year exclusive license period. Accumulated amortization at September 30, 2004 and December 31, 2003, was $1,054,000 and $642,000, respectively. Amortization expense was $138,000 and $412,000 in the three and nine-month periods ended September 30, 2004 and 2003, respectively. The estimated remaining amortization expense in future periods is 2004 — $138,000; 2005 - $458,000.

6. Geographic Consolidation

On April 10, 2003, Cohu announced that its Delta Design, Inc. subsidiary ("Delta") was relocating its Littleton, Massachusetts operation to its headquarters facility in Poway, California. The consolidation, which will result in approximately 50 of the 65 employees being terminated, was substantially completed in March 2004 and the remaining charges to operations for severance and other payroll costs are expected to be minimal. For the three-month period ended September 30, 2004 the Company recorded charges to operations, totaling $1,000 for severance and one-time termination benefits. These charges are included in cost of sales. For the nine-month period ended September 30, 2004, the Company recorded charges to operations totaling $194,000 for severance and one-time termination benefits. These charges are included in cost of sales ($59,000), research and development ($61,000) and selling, general and administrative expense ($74,000). In the quarter ended September 30, 2003, the Company recorded charges to operations totaling $354,000 for severance and one-time termination benefits. These charges are included in cost of sales ($142,000), research and development ($130,000) and selling, general and administrative expense ($82,000). Charges for the nine-month period ended September 30, 2003 totaled $632,000 and are included in cost of sales ($254,000), research and development ($262,000) and selling, general and administrative expense ($116,000). Cumulative charges to operations for severance and other exit costs for the period April 10, 2003 to September 30, 2004, were $1,062,000.

The following table reconciles amounts accrued and paid under the consolidation plan.

(in thousands)	Severance and other payroll	Other exit costs	Total
Liability at December 31, 2003	$ 407	$—	$ 407
Costs accrued	188	—	188
Amounts paid or charged	(148)	—	(148)
Liability at March 31, 2004	447	—	447
Costs accrued	5	—	5
Amounts paid or charged	(72)	—	(72)
Liability at June 30, 2004	380	—	380
Costs accrued	1	—	1
Amounts paid or charged	(25)	—	(25)
Liability at September 30, 2004	$ 356	$—	$ 356

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2004

In April 2003, Delta completed the relocation of its Columbus, Ohio operations to its facility in Poway, California. The consolidation has reduced costs without impacting the revenue generating activities of Delta. The Company recorded charges to operations in the quarter ended March 31, 2003, totaling $630,000 for severance and one-time termination benefits and $117,000 for contract termination costs primarily related to the leased facility. These charges are included in cost of sales ($47,000), research and development ($570,000) and selling, general and administrative expense ($130,000). Exit-related costs charged to operations subsequent to the quarter ended March 31, 2003 were not significant.

7. Real Estate Transactions

On January 13, 2003, the Company extended the term of a $9.2 million promissory note with TC Kearny Villa, L.P. (“TC”). The 8% non-recourse note was 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 of the note to June 30, 2005 and provided for principal payments, assuming a 20-year amortization schedule, of $206,000 and $223,000 on April 1, 2003 and 2004, respectively. Interest at 8% was to continue to be paid monthly.

In February 2004, the Company and TC entered into an agreement whereby the Company released its beneficial interest in the property securing the note receivable in exchange for full payment of the note and $272,000 of accrued interest. The Company received net cash proceeds from TC totaling $9,250,000 on February 19, 2004. The interest received was recorded as income in 2004.

8. Comprehensive Income (Loss)

Comprehensive income (loss) represents all non-owner changes in stockholders’ equity and consists of, on an after-tax basis where applicable, the following:

(in thousands)	Three months ended September 30, 2004	Three months ended September 30, 2003	Nine months ended September 30, 2004	Nine months ended September 30, 2003
Net income (loss)	$5,202	$(615)	$14,242	$2,121
Change in unrealized gain (loss) on investments	(8)	(155)	(94)	(250)
Comprehensive income (loss)	$5,194	$(770)	$14,148	$1,871

Accumulated other comprehensive income (loss) totaled ($70,000) and $24,000 at September 30, 2004 and December 31, 2003, respectively, and was attributed to after-tax unrealized losses and gains on investments.

COHU, INC.
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September 30, 2004

9. Segment and Related Information

The following is a summary of Cohu's significant accounts and balances by segment, reconciled to consolidated totals. Intersegment sales were not significant in any period.

(in thousands)	Three months ended September 30, 2004	Three months ended September 30, 2003	Nine months ended September 30, 2004	Nine months ended September 30, 2003
Net sales by segment:				
Semiconductor equipment	$47,346	$28,338	$115,362	$77,748
Television cameras	4,871	3,697	14,812	12,134
Metal detection	1,409	1,287	4,717	4,150
Microwave communications	1,243	1,190	3,254	3,643
Total consolidated net sales and net sales for reportable segments	$54,869	$34,512	$138,145	$97,675
Segment profit (loss):				
Semiconductor equipment	$ 6,755	$ 358	$ 18,454	$ (874)
Television cameras	223	(314)	834	(10)
Metal detection	(241)	(312)	(550)	(632)
Microwave communications	(488)	(540)	(2,189)	(1,363)
Profit (loss) for reportable segments	6,249	(808)	16,549	(2,879)
Other unallocated amounts:				
Corporate expenses	(737)	(590)	(2,053)	(1,598)
Interest income	390	683	1,346	1,825
Gain from sale of land held for future development	—	—	—	7,873
Investment impairment writedown	—	—	—	(2,500)
Income (loss) before income taxes	$ 5,902	$ (715)	$ 15,842	$ 2,721

(in thousands)	September 30, 2004	December 31, 2003
Total assets by segment:		
Semiconductor equipment	$103,550	$ 89,926
Television cameras	9,470	8,266
Metal detection	4,326	3,567
Microwave communications	8,609	7,681
Total assets for reportable segments	125,955	109,440
Corporate, principally cash and investments and deferred taxes	118,688	111,290
Total consolidated assets	$244,643	$220,730

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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10. Contingencies

The Company 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, the Company does not believe that any of these matters will have a material adverse effect on its financial position or results of its operations.

11. Guarantees

Cohu products are generally sold with a 12-month to 24-month warranty period following sale or installation. Parts and labor are covered under the terms of the warranty agreement. The warranty provision is based on historical experience by product and configuration.

Changes in accrued warranty during the three and nine months ended September 30, 2004 and 2003 were as follows (in thousands):

	2004	2003
Balance, January 1	$ 3,479	$ 2,878
Warranty expense accruals	1,406	1,081
Warranty charges	(1,255)	(1,072)
Balance, March 31	3,630	2,887
Warranty expense accruals	1,702	1,308
Warranty charges	(1,270)	(1,286)
Balance, June 30	4,062	2,909
Warranty expense accruals	1,693	1,178
Warranty charges	(1,027)	(1,297)
Balance, September 30	$ 4,728	$ 2,790

During the ordinary course of business, Cohu also provides standby letters of credit to certain parties as required. As of September 30, 2004, the maximum potential amount of future payments that Cohu could be required to make under these standby letters of credit is approximately $2.5 million. Cohu has not recorded any liability in connection with these guarantee arrangements beyond that required to appropriately account for the underlying transaction being guaranteed. Cohu does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these arrangements.

12. Subsequent Event

On October 19, 2004, the Cohu Board of Directors declared a $0.05 per share cash dividend payable on January 7, 2005 to stockholders of record on December 3, 2004.

COHU, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS September 30, 2004

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", "intend" and similar expressions are intended to identify such statements. Although the forward-looking statements in this Form 10-Q reflect the good faith judgment of our management, 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.

OVERVIEW

Cohu's primary business activity involves the development, manufacture, marketing, sale and servicing of test handling equipment for the global semiconductor industry. During the three-year period ended December 31, 2003, the semiconductor equipment industry experienced a severe business downturn. Our net sales during this period declined more than 50% from the record 2000 year. This decrease in revenue was generally comparable to most other companies in the semiconductor equipment industry, particularly the "back-end" semiconductor equipment companies that would be considered the closest to Cohu in terms of business cycles.

In the first six months of 2004, Cohu's semiconductor equipment business, as well as the semiconductor equipment industry, saw significantly improved order bookings and backlog, an indication that the severe three-year industry downturn had possibly ended. Additionally, our operating results improved during the period in part due to improved sales product mix resulting in a higher gross margin. However, our orders declined significantly in the third quarter of 2004 and business conditions in the semiconductor equipment industry have again weakened. Orders in our semiconductor equipment business in the third quarter of 2004 declined by approximately 50% from the second quarter of 2004. This decline was generally comparable to the overall decline in orders for the test and assembly segment of the semiconductor equipment industry as reported by industry trade sources and other companies. The length and severity of the industry downturn is not currently known.

Our operating results in the last three years and the nine months ended September 30, 2004 have been impacted by charges to cost of sales related to excess, obsolete and lower of cost or market inventory issues. These charges totaled approximately $24.5 million during the three-year period ended December 31, 2003 (approximately $3.3 million, net, in the nine months ended September 30, 2004) and were primarily the result of decreases in customer forecasts, competitive conditions in the test handler industry and, to a lesser extent, changes in our sales product mix as a result of new product introductions. Exposures related to inventories are common in the semiconductor equipment industry due to the narrow customer base, the custom nature of the products and inventory and the shortened product life cycles caused by rapid changes in semiconductor manufacturing technology. Increased competition, particularly in the last several years, has also negatively impacted our gross margins on certain products and we believe it is likely these conditions will exist for the foreseeable future.

Our other operating costs consist of research and development ("R&D") and selling, general and administrative expenses ("SG&A"). SG&A has been relatively consistent during the last three years while our R&D expense declined in 2003, in part as a result of the closure of our Columbus, Ohio engineering operation.

Our non-semiconductor equipment businesses have comprised approximately 20% of our revenues during the last three years. The operating results of these businesses have deteriorated over the last several years and they accounted for a significant portion of our loss from operations in 2003.

Our financial condition is very strong with significant cash and short-term investments and no long-term debt. Despite the severe downturn in the semiconductor equipment industry, during the three-year period ended December 31, 2003 we generated $30.7 million of net cash from operating activities and total cash and investments have increased from $92.6 million at December 31, 2000 to $115.5 million at September 30, 2004.

Cohu management uses several performance metrics to manage our various businesses. These metrics, which tend to focus on near term forecasts due to the limited order backlog in our businesses, include (i) order bookings and backlog for the most recently completed quarter and the forecast for the next quarter; (ii) inventory levels and related excess exposures typically based on the next twelve month's forecast; (iii) gross margin and other operating expense trends and (iv) industry data and trends noted in various publicly released sources. Due to the short-term nature of our order backlog that historically has represented about three months of business and the inherent volatility of the semiconductor equipment business, the Company's past performance is frequently not indicative of future operating results.

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 of America. 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 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 Cohu Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission, affect the significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue Recognition: 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.

Accounts Receivable*:* 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 deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

Warranty: Cohu provides for the estimated costs of product warranties in the period sales are recognized. Cohu's warranty obligation estimates are 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.

Inventory: Cohu records valuation reserves on its inventory for estimated excess and obsolete inventory and lower of cost or market concerns equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future product demand, market conditions and product selling prices. If future product demand, market conditions or product selling prices are less or more favorable than those projected by management or if continued modifications to products are required to meet specifications or other customer requirements, changes to inventory reserves may be required.

Income Taxes: Cohu estimates income taxes based on the various jurisdictions where we conduct business. This requires us to estimate our actual current tax exposure and to assess temporary differences that result from differing treatment of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities that are reflected in the consolidated balance sheet. The net deferred tax assets are reduced by a valuation allowance if, based upon all available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Establishing a valuation allowance or increasing this allowance in an accounting period results in tax expense in the statement of operations. Cohu must make significant judgments to determine the provision for income taxes, deferred tax assets and liabilities and any valuation allowance to be recorded against net deferred tax assets. Our net deferred tax asset balance as of December 31, 2003 was $3.1 million, net of a valuation allowance of $11.7 million. We recorded the valuation allowance in the fourth quarters of 2002 and 2003 as a result of our recent losses and to reflect uncertainties concerning our ability to generate future taxable income and our corresponding ability to utilize our deferred tax assets. The deferred tax assets consist primarily of deductible temporary differences, tax credit and net operating loss carryforwards.

Intangible Assets: At September 30, 2004, intangible assets other than goodwill were evaluated for impairment using undiscounted cash flows expected to result from the use of the assets as required by FASB Statement No. 144 and we concluded there was no impairment loss. Cohu is required to assess goodwill impairment using the methodology prescribed by FASB Statement No. 142. Statement No. 142 requires that goodwill be tested for impairment on an annual basis and more frequently in certain circumstances. The required annual goodwill impairment test is performed as of October 1 of each year. Cohu did not recognize any goodwill impairment as a result of performing this annual test.

Contingencies: Cohu is subject to certain contingencies that arise in the ordinary course of its businesses. In accordance with FASB Statement No. 5, *Accounting for Contingencies*, we assess the likelihood that future events will confirm the existence of a loss or an impairment of an asset. If a loss or asset impairment is probable, as defined in Statement No. 5 and the amount of the loss or impairment is reasonably estimable, we accrue a charge to operations in the period such conditions become known.

Recent Accounting Pronouncement: During March 2004, the FASB issued an exposure draft of a new standard entitled *Share Based Payment*, which would amend SFAS No. 123, *Accounting for Stock Based Compensation*, and SFAS No. 95, *Statement of Cash Flows*. Among other items, the new standard would require the expensing, in the financial statements, of stock options issued by the Company. The new standard, as proposed, would be effective for periods beginning after June 15, 2005

Throughout most of 2004, the FASB has continued to deliberate on different aspects of a new standard, and currently expects to issue a final standard in the fourth quarter 2004. Although the Company has not yet completed an analysis to quantify the exact impact the new standard will have on its future financial performance, the disclosures in Note 1 provide detail as to the Company's financial performance as if the Company had applied the fair value based method and recognition provisions of SFAS No. 123 to stock-based employee compensation to the current reporting periods.

RESULTS OF OPERATIONS

The following table summarizes certain operating data as a percentage of net sales for the three and nine-month periods ended September 30.

	Three months ended		Nine months ended	
	2004	2003	2004	2003
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	62.9	69.5	59.3	67.4
Gross margin	37.1	30.5	40.7	32.6
Research and development expense	13.1	16.2	14.4	18.5
Selling, general and administrative expense	14.0	18.4	15.8	18.7
Income (loss) from operations	10.0	(4.1)	10.5	(4.6)

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
September 30, 2004

Third Quarter 2004 Compared to Third Quarter 2003

Net Sales

Our net sales increased 59% to $54.9 million in 2004, compared to net sales of $34.5 million in the 2003 period. Sales of semiconductor test handling equipment in 2004 increased 67% from the 2003 period and accounted for 86% of consolidated net sales in 2004, versus 82% in 2003. Sales of television cameras and other equipment accounted for 9% of net sales in 2004 and increased 32% when compared to 2003, while the combined sales of metal detection and microwave equipment accounted for 5% of net sales in 2004 and increased 7% compared to 2003.

The increase in sales in our semiconductor equipment business was due to the significantly improved business conditions in the semiconductor industry and was similar to sales increases experienced by other semiconductor equipment companies during the first six months of 2004. Our net sales during this period also benefited from the elimination of a liability of $1.2 million for customer sales credits that was recorded in 2001 and 2002. During the quarter ended September 30, 2004 these sales credits expired and net sales were credited for $1.2 million. The increase in sales for our television cameras and other equipment business was primarily attributable to the improved business conditions in the electronics and related industries in 2004.

At September 30, 2004, the Company had deferred revenue totaling approximately $22.4 million and deferred profit of $11.1 million. At December 31, 2003, the Company had deferred revenue totaling approximately $9.3 million and deferred profit of $4.1 million. The increase in deferred revenue and profit is primarily related to the deferral of revenue on certain new semiconductor test handlers and microwave communications equipment that have been shipped and installed and are awaiting customer acceptance.

Gross margin

Gross margin as a percentage of net sales increased to 37.1% in 2004 from 30.5% in 2003, as a result of higher margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins increased in 2004, primarily as a result of increased business volume and changes in product mix. Cohu computes the majority of its excess and obsolete inventory reserve requirements using a one-year inventory usage forecast. During 2004 and 2003, we recorded net charges to cost of sales of approximately $2.3 million and $1.3 million, respectively, for excess and obsolete inventory. While we believe our reserves for excess and obsolete inventory are adequate to cover our exposures at September 30, 2004, reductions in customer forecasts or continued modifications to products, including our newest handler Delta ***EDGE***™, may require additional charges to operations that could negatively impact our gross margin in future periods. Conversely, if our actual inventory usage is greater than our forecasted usage, our gross margin may be favorably impacted in future periods.

In 2003, we recorded a charge to cost of sales of approximately $1.7 million as a result of inventory market valuation writedowns. In the quarter ended September 30, 2004, we sold certain of this inventory and our gross margin was favorably impacted by approximately $150,000.

Research And Development Expense

R&D expense as a percentage of net sales was 13.1% in 2004, compared to 16.2% in 2003, increasing in absolute dollars from $5.6 million in 2003 to $7.2 million in 2004. The increase in R&D was primarily the result of higher R&D labor and material costs for product development in the semiconductor equipment and microwave communications businesses, offset by a decrease in expenditures in the television camera and metal detection businesses.

Selling, General And Administrative Expense

SG&A expense as a percentage of net sales decreased to 14.0% in 2004, from 18.4% in 2003, increasing in absolute dollars from $6.3 million in 2003 to $7.7 million in 2004. The increase in SG&A expense was primarily related to increased business volume across all of Cohu's businesses and costs incurred to comply with the Sarbanes-Oxley Act of 2002.

Interest Income

Interest income was \$0.4 million and \$0.7 million in 2004 and 2003, respectively. The decrease in interest income was due to lower interest rates on our investments.

Income Taxes

The provision (benefit) for income taxes expressed as a percentage of pre-tax income was 11.9% in 2004 and (14.0)% in 2003. The provision (benefit) for income taxes is based on the estimated effective tax rate for the entire year and in 2004 is lower than the U.S. federal statutory rate primarily due to the significant deferred tax valuation allowance recorded at December 31, 2003. The estimated effective tax rate is subject to adjustment in subsequent quarterly periods as our estimates of pretax income or loss for the year are increased or decreased. In accordance with FASB Statement No. 109, *Accounting for Income Taxes*, net deferred tax assets are reduced by a valuation allowance, if based on all the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. A valuation allowance of approximately \$11.7 million had been provided on deferred tax assets at December 31, 2003, primarily due to uncertainties of realizing net deferred tax assets in excess of income expected to be generated from future income and certain tax planning strategies. We determined that the valuation allowance was required based upon our recent losses, and the likelihood of generating sufficient additional taxable income in future years to obtain benefit from the reversal of temporary differences and net operating loss and tax credit carryforwards.

At September 30, 2004, Cohu reassessed the appropriateness of the valuation allowance. We concluded that, despite the improvement in operating results that were significantly better than forecast, it would be premature to reverse the valuation allowance that existed at December 31, 2003 other than to the extent necessary to reduce current tax expense generated by 2004 income. We will continue to assess the appropriateness of the valuation allowance in the fourth quarter of 2004. Cohu may adjust the allowance if, based on a careful assessment of business prospects and estimates of future income, we conclude that all or a portion of the allowance is no longer required. A reduction in the allowance would result in a corresponding credit to income tax expense.

The IRS is conducting a routine examination of Cohu's consolidated tax returns for the period 2000 through 2002. We expect the IRS examination to be completed in 2004. If the examination is concluded in 2004, any adjustments that result from the IRS examination will be reflected in our 2004 results of operations. Cohu believes that such adjustments, if any, are adequately provided for in the consolidated financial statements. A favorable outcome from the examination may result in a credit to income tax expense while an unfavorable outcome may result in an increase to income tax expense in the quarter the examination is concluded.

The Company has derived significant tax benefits from the research credit under Section 41 of the Internal Revenue Code and the Extraterritorial Income Exclusion (ETI). The President signed legislation extending the research credit through December 31, 2005, repealing the ETI regime, which the World Trade Organization (WTO) had ruled an illegal export subsidy, and approved tax relief for U.S. based manufacturing activities. The recently signed legislation repeals the ETI exclusion for transactions entered into after December 31, 2004 subject to a phase-out that would allow the company to claim full ETI benefits in 2004, 80% of the benefits in 2005 and 60% in 2006 and created a deduction for domestic manufacturing activities, with a phased in rate beginning in 2005. It is not currently known the extent that the Company will be able to realize the benefit from the domestic manufacturing deduction in future years and whether the provision could partly or entirely replace the lost ETI benefit.

Other Items

In 2003, Cohu through its Broadcast Microwave Services (BMS) subsidiary was awarded an \$8.5 million contract from the United Arab Emirates (UAE) Armed Services to provide microwave communications equipment for a command center and infrastructure system for border security. The contract, which utilizes our most advanced microwave communications technology that has not previously been installed in an application of this size and complexity, requires that 40% of the total contract price be paid after the system has been fully accepted by the customer. As a result of these factors and the inability to make reasonably dependable estimates of progress toward completion and acceptance, Cohu will recognize revenue and related costs under this contract in the period the system is accepted by the customer. Through September 30, 2004, we had shipped inventory with a sales value of $6.0 million and deferred costs of approximately $4.2 million resulting in deferred profit of approximately $1.8 million under the contract. In addition, at September 30, 2004, we had inventory to be delivered under the contract of approximately $1.3 million and accounts receivable of approximately $2.8 million. Cohu has also provided the customer with a standby letter of credit totaling approximately $2.5 million at September 30, 2004, that may be drawn upon if BMS does not fulfill the terms of the contract. We currently expect equipment and system installation to be completed in 2004. If BMS is unable to successfully complete the installation of the equipment and obtain customer acceptance of the system, the related inventory and receivables may need to be written off, the customer might seek a refund of the $3.2 million in payments made to BMS under the contract and our business, results of operations and financial condition would be materially impacted.

As a result of the factors set forth above, our net income was $5.2 million in 2004, compared to net loss of $0.6 million in 2003.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

Net Sales

Our net sales increased 41% to $138.2 million in 2004, compared to net sales of $97.7 million in the 2003 period. Sales of semiconductor test handling equipment in 2004 increased 48% from the 2003 period and accounted for 84% of consolidated net sales in 2004, versus 80% in 2003. Sales of television cameras and other equipment accounted for 11% of net sales in 2004 and increased 22% when compared to 2003, while the combined sales of metal detection and microwave equipment accounted for 5% of net sales and increased 2% compared to 2003.

The increase in sales in our semiconductor equipment business was due to the significantly improved business conditions in the semiconductor industry and was similar to sales increases experienced by other semiconductor equipment companies during the first six months of 2004. Our net sales during this period also benefited from the elimination of a liability of $1.2 million for customer sales credits that was recorded in 2001 and 2002. During the quarter ended September 30, 2004 these sales credits expired and net sales were credited for $1.2 million. The increase in sales for our television cameras and other equipment business was primarily attributable to the improved business conditions in the electronics and related industries in 2004.

Gross margin

Gross margin as a percentage of net sales increased to 40.7% in 2004 from 32.6% in 2003, primarily as a result of higher margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins increased in 2004, primarily as a result of changes in product mix and increased business volume. Cohu computes the majority of its excess and obsolete inventory reserve requirements using a one-year inventory usage forecast. During 2004 and 2003 we recorded net charges to cost of sales of approximately $4.5 million and $4.3 million, respectively, for excess and obsolete inventory.

In the nine months ended September 30, 2004, our gross margin was favorably impacted by approximately $1.2 million, as a result of the sale of certain inventory that was written down in 2003.

Research And Development Expense

R&D expense as a percentage of net sales was 14.4% in 2004, compared to 18.5% in 2003, increasing in absolute dollars from $18.1 million in 2003 to $19.9 million in 2004. The increase in R&D was primarily the result of higher R&D labor and material costs for product development in the semiconductor equipment and television camera businesses, offset by a decrease in expenditures in the metal detection and microwave communications businesses.

Selling, General And Administrative Expense

SG&A expense as a percentage of net sales decreased to 15.8% in 2004, from 18.7% in 2003, increasing in absolute dollars from $18.3 million in 2003 to $21.8 million in 2004. The increase in SG&A expense was primarily related to increased business volume across all of Cohu's businesses.

Interest Income

Interest income was $1.3 million and $1.8 million in 2004 and 2003, respectively. The decrease in interest income was due to lower interest rates on our investments.

Income Taxes

The provision for income taxes expressed as a percentage of pre-tax income was 10.1% in 2004 and 22.1% in 2003. The provision for income taxes is based on the estimated effective tax rate for the entire year and in 2004 is lower than the U.S. federal statutory rate primarily due to the significant deferred tax valuation allowance recorded at December 31, 2003.

Other Items

On April 10, 2003, Cohu announced that its Delta Design subsidiary was relocating its Littleton, Massachusetts operation to its headquarters facility in Poway, California. The consolidation was substantially complete by March 31, 2004. Cohu incurred charges of approximately $0.3 million in the second quarter of 2003 and $0.2 million in the first quarter of 2004, for severance and other related exit costs.

In April 2003, Cohu's Delta Design subsidiary completed the relocation of its Columbus, Ohio operations to its headquarters facility in Poway, California. The consolidation reduced costs without impacting the revenue generating activities of Delta Design. We recorded charges to operations in the quarter ended March 31, 2003, totaling $0.6 million for severance and one-time termination benefits and $0.1 million for contract termination costs primarily related to the leased facility. Exit-related costs charged to operations subsequent to the quarter ended March 31, 2003 were not significant.

On April 25, 2003, Cohu sold twelve acres of land in Poway, California held for future development for $8.8 million in net cash proceeds resulting in a pretax gain of approximately $7.9 million. Additionally, in the quarter ended June 30, 2003, Cohu wrote off an equity investment in a privately-held company and recorded a $2.5 million charge to operating results as the investment was deemed impaired and such impairment was considered other than temporary, pursuant to APB No. 18.

As a result of the factors set forth above, our net income was $14.2 million in 2004, compared to net income of $2.1 million in 2003.

LIQUIDITY AND CAPITAL RESOURCES

Our net cash flows provided from operating activities in the first nine months of 2004 totaled $2.0 million. The major components of cash flows provided by operating activities were net income of $14.2 million, offset by the net change in current assets and liabilities totaling $15.2 million, and depreciation and amortization of $3.0 million. The net change in current assets and liabilities included increases in accounts receivable and inventories of $16.3 million and $9.9 million, respectively. These increases were primarily attributable to the improved business conditions in the semiconductor equipment business that drove higher sales and order activity during the first six months of 2004. Net cash used for investing activities included $4.6 million for the purchase of short-term investments, less sales and maturities, and purchases of property, plant and equipment and other assets of

$1.8 million offset by a $9.0 million payment received on a note receivable. The purchases of property, plant and equipment were primarily made to support activities in the semiconductor equipment business and consisted of software and equipment used in manufacturing and other related functions. Cash used for financing activities included $2.0 million received from the issuance of stock upon the exercise of stock options offset by $3.2 million for the payment of dividends.

In June 2004, Cohu renewed its $5.0 million line of credit, which provides working capital. The line of credit requires us to maintain specified minimum levels of net worth, limits the amount of capital expenditures and to meet certain other financial covenants. We are currently in compliance with these covenants. Approximately $2.5 million of the line of credit has been allocated to outstanding standby letters of credit, and Cohu had approximately $2.5 million available for borrowing on September 30, 2004. We expect that we will continue to make capital expenditures to support our business and we anticipate that present working capital and available borrowings under the line of credit will be sufficient to meet our operating requirements for at least the next twelve months.

Off Balance Sheet Arrangements

During the ordinary course of business, Cohu provides standby letters of credit instruments to certain parties as required. As of September 30, 2004, the maximum potential amount of future payments that Cohu could be required to make under these standby letters of credit was approximately $2.5 million. Cohu has not recorded any liability in connection with these arrangements beyond that required to appropriately account for the underlying transaction being guaranteed. Cohu does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these arrangements.

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, 2002, 2003 and late 2004. Any significant 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 and lower of cost or market inventory write-offs and reserve requirements. In the years ended December 31, 2003, 2002 and 2001, we recorded pretax inventory-related charges of approximately $4.6 million, $4.1 million and $15.9 million, respectively, primarily as a result of changes in customer forecasts.

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 the year ended December 31, 2003, two customers of the semiconductor equipment segment accounted for 57% (53% in 2002, and 44% in 2001) of our net sales. 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 semiconductor 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 semiconductor 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. The test handler industry, while relatively small in terms of worldwide market size compared to other segments of the semiconductor equipment industry, has an inordinately large number of participants resulting in intense competitive pricing pressures. 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 only 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 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.

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, including our recently introduced Delta ***EDGE***™ handler, may 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 semiconductor 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 each of the years in the three-year period ended December 31, 2003. 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 acceptance and 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.

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 continue to experience difficulties in manufacturing and volume production of our new test handlers including our latest product offering, the Delta ***EDGE***™. 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.

We are exposed to risks associated with acquisitions and investments*.*

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 $14.2 million in cash. A significant portion of the purchase price was allocated to goodwill and other intangible assets. In the fourth quarter of 2002, Cohu invested $2.5 million in KryoTech, Inc. preferred stock, that was written off in June, 2003, and $1.7 million in intangible assets for certain technology.

Acquisitions and investments 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 technology; and 6) the impairment of acquired intangible assets and 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, acquisitions and investments 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 remedial measures to address previous slowdowns in the semiconductor equipment industry that may affect our ability to be competitive.

In the past, we have taken remedial measures to address the slowdown in the market for our products. In particular, we reduced our workforce, including reductions in September and October 2002 and January and March 2003, delayed salary increases, reduced senior executives' pay, implemented furloughs, reduced expense budgets and consolidated facility consolidations including the consolidation of Delta Design's Columbus, Ohio and Littleton, Massachusetts operations into our Poway, California facility. 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 needs.

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. 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 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 September 30, 2004, may not be a reliable indicator of revenues in future periods due to delayed delivery dates or 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 continually 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. Workforce reductions continued in the third and fourth quarter of 2002 and January and March, 2003. We recently consolidated Delta Design's Columbus, Ohio and Littleton, Massachusetts operations into our Poway, California facility. In 2004 we have increased our workforce, particularly in manufacturing, to meet increased demand. However, our orders declined significantly in the third quarter of 2004 and business conditions in the semiconductor equipment industry have weakened. 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 and adversely impact employee morale. 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 seen a significant decline in sales of our gravity-feed test handler products. Pick-and-place IC handlers used in DRAM applications account for a significant portion of the worldwide IC handler market and Cohu's market share in the DRAM segment is negligible. Cohu's share of the gravity-feed handler market for the last five years has also been negligible, and with the announced closure of our Littleton, Massachusetts operations, we no longer plan to sell gravity feed test handlers. Such handlers are used in numerous non DRAM applications and continue to represent a significant portion of the worldwide test handler market. Because we do not participate in the DRAM and/or gravity-feed market segments, our total available sales market is limited and as a result our business and results of operations may be negatively impacted.

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. In the fourth quarter of 2003, we established a small manufacturing operation near Manila in the Philippines. 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, terrorist threats and related security matters 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.

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. Any of our proprietary rights may be challenged, invalidated or circumvented, and these rights may cease to 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 and political instability and we compete against a number of Asian test handling equipment suppliers.

During the year ended December 31, 2003, 61% of our total net sales were exported to foreign countries, including 72% of the sales in the semiconductor equipment segment. The majority of our export sales are made to destinations in Asia. Political or economic instability, 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 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 and are not profitable.

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 significant decline in the operating results of these businesses over the last several years with increasing losses and the future prospects for certain of these businesses remain uncertain. We may not be able to continue to compete successfully in these businesses.

New accounting rules may impact our future operating results.

During March 2004, the FASB issued an exposure draft of a new standard entitled *Share Based Payment*, which would amend SFAS No. 123, *Accounting for Stock Based Compensation*, and SFAS No. 95, *Statement of Cash Flows*. Among other items, the new standard would require the expensing, in the financial statements, of stock options issued by the Company. The new standard, as proposed, would be effective for periods beginning after June 15, 2005.

Throughout most of 2004, the FASB has continued to deliberate on different aspects of a new standard, and currently expects to issue a final standard in the fourth quarter 2004. Although the Company has not yet completed an analysis to quantify the exact impact the new standard will have on its future financial performance, the disclosures in Note 1 provide detail as to the Company's financial performance as if the Company had applied the fair value based method and recognition provisions of SFAS No. 123 to stock-based employee compensation to the current reporting 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 $29.70 to $9.99. 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.

Recently enacted and proposed changes in securities laws and regulations are likely to increase our costs.

The Sarbanes-Oxley Act of 2002 ("SOX") that became law in July 2002 requires changes in some of our corporate governance and securities disclosure or compliance practices. The SEC has promulgated new rules on a variety of subjects and Nasdaq has issued revisions to its requirements for companies that are Nasdaq-listed. In June 2003 the SEC adopted certain rules as directed by Section 404 of SOX. These rules require that publicly held companies, including Cohu, include in their annual report to shareholders a report of management on the company's internal control over financial reporting. Our independent auditors will be required to attest to management's assessment of internal controls over financial reporting. Cohu will be required to comply with this new requirement in its annual report for the year ending December 31, 2004. If our financial reporting controls are not deemed effective, there will be an adverse impact on our reputation that could negatively impact our stock price.

We also expect these developments to increase our legal and accounting compliance costs, and to make some activities more difficult, such as stockholder approval of new stock option plans. We also expect these developments to make it more difficult and expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These developments could make it more difficult for us to attract and retain qualified members of our board of directors, or qualified executive officers. We are presently evaluating and monitoring regulatory developments and cannot estimate the timing or magnitude of additional costs we may incur as a result.

The outbreak of SARS and bird flu in Asia and geopolitical instability caused by terrorist attacks and threats may adversely impact our operations and sales.

Our Asian sales and service headquarters is located in Singapore and the majority of our sales are made to destinations in Asia. In addition, we recently organized a business in the Philippines to fabricate certain component parts used in our semiconductor test handlers. Our operations and sales in this region may be adversely impacted by Severe Acute Respiratory Syndrome, or SARS, or the outbreak of Asian bird flu, if our business or the businesses of our customers are disrupted by travel restrictions or the illness and quarantine of employees. Furthermore, Cohu's Broadcast Microwave Services subsidiary is currently involved in a significant contract with the United Arab Emirates. Continued terrorist attacks or threats in this region may cause geopolitical instability that may have an adverse effect on our ability to successfully satisfy our delivery and installation requirements under the agreement, which would materially impact our business, results of operations and financial condition.

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 2003 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.

Item 3. Quantitative And Qualitative Disclosures About Market Risk.

Interest rate risk.

At September 30, 2004 our investment portfolio includes fixed-income securities with a fair value of approximately $105.0 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 in interest rates (e.g. 3.00% to 3.30%) 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.

Item 4. Controls and Procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

During the last fiscal quarter, there have been no changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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Part II OTHER INFORMATION

Item 6. 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
31.1	-	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
31.2	-	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002
32.1	-	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	-	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 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: October 28, 2004	/s/ James A. Donahue
	James A. Donahue President & Chief Executive Officer
Date: October 28, 2004	/s/ John H. Allen
	John H. Allen Vice President, Finance & Chief Financial Officer

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EXHIBIT INDEX

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Exhibit 31.1

COHU, INC.
SARBANES-OXLEY ACT SECTION 302(a)
CERTIFICATION

I, James A. Donahue, certify that:

1. I have reviewed this Form 10-Q of Cohu, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2004

/s/ James A. Donahue
- ----------------------------
James A. Donahue
President and Chief Executive Officer

Exhibit 31.2

COHU, INC.
SARBANES-OXLEY ACT SECTION 302(a)
CERTIFICATION

I, John H. Allen, certify that:

1. I have reviewed this Form 10-Q of Cohu, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2004

/s/ John H. Allen
- ---
John H. Allen

Vice President Finance & Chief Financial Officer

Exhibit 32.1

COHU, INC.
SARBANES-OXLEY ACT SECTION 906

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James A. Donahue, Chief Executive Officer of Cohu, Inc. (the "Registrant"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) the Quarterly Report on Form 10-Q of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: October 28, 2004

/s/ James A. Donahue

James A. Donahue
President & Chief Executive Officer

Exhibit 32.2

COHU, INC.
SARBANES-OXLEY ACT SECTION 906

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, John H. Allen, Chief Financial Officer of Cohu, Inc. (the "Registrant"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) the Quarterly Report on Form 10-Q of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: October 28, 2004

/s/ John H. Allen

John H. Allen
Vice President Finance &
Chief Financial Officer