

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1997

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
(State or other jurisdiction of Incorporation or Organization)

95-1934119
(I.R.S. Employer Identification No.)

5755 KEARNY VILLA ROAD, SAN DIEGO, CALIFORNIA
(Address of principal executive office)

92123
(Zip Code)

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

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

Yes X No

As of September 30, 1997, the Registrant had 9,492,405 shares of its \$1.00 par value common stock outstanding.

COHU, INC.
INDEX
FORM 10-Q
SEPTEMBER 30, 1997

PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Balance Sheets
September 30, 1997 (Unaudited) and December 31, 1996.....3

Condensed Consolidated Statements of Income (Unaudited)
Three and Nine Months Ended September 30, 1997 and 1996.....4

Condensed Consolidated Statements of Cash Flows (Unaudited)
Nine Months Ended September 30, 1997 and 1996.....5

Notes to Unaudited Condensed Consolidated Financial Statements.....6

Item 2. Management's Discussion and Analysis of
Financial Condition and Results of Operations.....7

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.....10

Signatures11

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

ASSETS

	SEPTEMBER 30, 1997	DECEMBER 31, 1996
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 23,093	\$ 24,660
Short-term investments	29,426	28,326
Accounts receivable, less allowance for doubtful accounts	35,584	19,170
Inventories, at lower of average cost or market:		
Finished goods	3,695	2,395
Work in process	11,866	6,012
Raw materials	16,726	7,175
	32,287	15,582
Deferred income taxes	9,681	9,681
Prepaid expenses	987	1,166
	-----	-----
Total current assets	131,058	98,585
Property, plant and equipment, at cost:		
Land and land improvements	2,114	2,114
Buildings and building improvements	12,237	11,932
Machinery and equipment	15,704	14,069
	-----	-----
	30,055	28,115
Less accumulated depreciation and amortization	12,344	11,304
	-----	-----
Net property, plant and equipment	17,711	16,811
Goodwill, net	2,351	2,469
Other assets	105	61
	-----	-----
	\$151,225	\$117,926
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 14,144	\$ 4,464
Income taxes payable	4,626	1,552
Other accrued liabilities	15,437	14,566
	-----	-----
Total current liabilities	34,207	20,582
Accrued retiree medical benefits	983	916
Deferred income taxes	156	156
Stockholders' equity:		
Preferred stock	--	--
Common stock	9,492	9,341
Paid in excess of par	6,850	5,863
Retained earnings	99,537	81,068
	-----	-----
Total stockholders' equity	115,879	96,272
	-----	-----
	\$151,225	\$117,926
	=====	=====

See accompanying notes

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
	-----	-----	-----	-----
Net sales	\$ 52,769	\$ 34,763	\$132,173	\$130,859
Cost and expenses:				
Cost of sales	29,524	19,887	74,532	72,033
Research and development	4,744	3,340	12,269	10,691
Selling, general and administrative	5,700	3,758	15,686	16,061
	-----	-----	-----	-----
Income from operations	12,801	7,778	29,686	32,074
Interest income	726	513	2,181	1,293
	-----	-----	-----	-----
Income before income taxes	13,527	8,291	31,867	33,367
Provision for income taxes	5,000	3,100	11,700	12,700
	-----	-----	-----	-----
Net income	<u>\$ 8,527</u>	<u>\$ 5,191</u>	<u>\$ 20,167</u>	<u>\$ 20,667</u>
	=====	=====	=====	=====
Net income per share	<u>\$.85</u>	<u>\$.54</u>	<u>\$ 2.03</u>	<u>\$ 2.13</u>
	=====	=====	=====	=====
Average common shares and equivalents	<u>10,073</u>	<u>9,642</u>	<u>9,921</u>	<u>9,683</u>
	=====	=====	=====	=====

See accompanying notes.

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

	NINE MONTHS ENDED	
	SEPTEMBER 30,	
	1997	1996
	----	----
Cash flows from operating activities:		
Net income	\$ 20,167	\$ 20,667
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	1,351	1,254
Purchase consideration to be paid in stock	341	606
Increase in accrued retiree medical benefits	67	66
Changes in assets and liabilities:		
Accounts receivable	(16,414)	5,219
Inventories	(16,705)	4,664
Prepaid expenses	179	18
Accounts payable	9,680	(4,168)
Income taxes payable	3,074	(4,145)
Other accrued liabilities	530	(2,476)
	-----	-----
Net cash provided from operating activities	2,270	21,705
Cash flows from investing activities:		
Purchases of short-term investments	(23,779)	--
Maturities of short-term investments	22,679	--
Purchases of property, plant, equipment and other assets	(2,177)	(4,670)
	-----	-----
Net cash used for investing activities	(3,277)	(4,670)
Cash flows from financing activities:		
Issuance of stock, net	1,138	842
Cash dividends	(1,698)	(1,391)
	-----	-----
Net cash used for financing activities	(560)	(549)
Net increase (decrease) in cash and cash equivalents	(1,567)	16,486
Cash and cash equivalents at beginning of period	24,660	28,874
	-----	-----
Cash and cash equivalents at end of period	\$ 23,093	\$ 45,360
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 8,637	\$ 16,821

See accompanying notes.

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1997

- 1 - The accompanying interim financial statements are unaudited but include all adjustments (consisting of normal recurring adjustments) which the Company considers necessary for a fair statement of the results for the period. The operating results for the three and nine months ended September 30, 1997 are not necessarily indicative of the operating results for the entire year or any future period. These financial statements should be read in conjunction with the consolidated financial statements incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 1996.
- 2 - Net income per share as presented on the statements of income represent primary earnings per share. Dual presentation of primary and fully diluted earnings per share has not been made because the differences are insignificant.

Effective December 31, 1997, the Company will adopt Statement of Financial Accounting Standards No. 128, "Earnings per Share." At that time, the Company will be required to change the method currently used to calculate earnings per share and to restate all prior periods. The new requirements will include a calculation of basic earnings per share, from which the dilutive effect of stock options will be excluded. The basic earnings per share are expected to reflect an increase of \$.05 and \$.11 per share for the three and nine month periods ended September 30, 1997, respectively, over the primary earnings per share reported for these periods. A calculation of diluted earnings per share will also be required; however, this is not expected to differ materially from the primary earnings per share reported for the three and nine-month periods ended September 30, 1997 and 1996.

- 3 - On May 6, 1997 the stockholders of the Company approved the adoption of (i) the Cohu, Inc. 1997 Employee Stock Purchase Plan providing for the issuance of a maximum of 300,000 shares of the Company's Common Stock to employees and (ii) the Cohu, Inc. 1996 Outside Directors Stock Option Plan providing for the issuance of a maximum of 100,000 shares of the Company's Common Stock to Outside Directors.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1997

RESULTS OF OPERATIONS

THIRD QUARTER 1997 COMPARED TO THIRD QUARTER 1996

Net sales increased 52% to \$52.8 million in the third quarter of 1997 compared to net sales of \$34.8 million in 1996. Sales of semiconductor test handling equipment by the Company's Delta Design and Daymarc subsidiaries increased 63% in the third quarter of 1997 as compared to the third quarter of 1996 and accounted for 84% of consolidated net sales versus 78% in the third quarter of 1996. Sales of television cameras and other equipment increased 12% from 1996 and accounted for 16% of consolidated net sales in the third quarter of 1997 versus 22% in 1996. Gross margin as a percentage of net sales in the third quarter of 1997 was 44.1% versus 42.8% in 1996. The increase in margin was primarily due to the increase in margins within the semiconductor equipment segment largely attributable to increased business volume offset by changes in product mix and certain cost increases. Research and development expense increased from \$3.3 million to \$4.7 million and as a percentage of net sales was 9% in the third quarter of 1997 compared to 9.6% in 1996 and reflected the Company's continued investment in new product development in the semiconductor equipment business. Selling, general and administrative expense as a percentage of net sales was 10.8% in both the 1997 and 1996 periods. Interest income in the third quarter increased 42% to \$.7 million due to the significant increase in average cash and short-term investment balances. The provision for income taxes expressed as a percentage of pre-tax income was 37% in the third quarter of 1997 versus 37.6% for the year ended December 31, 1996. For the third fiscal quarter, as a result of the factors set forth above, net income increased 64% to \$8.5 million in 1997 from \$5.2 million in 1996.

NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1996

Net sales increased 1% to \$132.2 million in the first nine months of 1997 compared to net sales of \$130.9 million in 1996. Sales of semiconductor test handling equipment by the Company's Delta Design and Daymarc subsidiaries increased 1% in the first nine months of 1997 and accounted for 80% of consolidated net sales versus 81% in the first nine months of 1996. Sales of television cameras and other equipment increased 3% from 1996 and accounted for 20% of consolidated net sales in the first nine months of 1997 versus 19% in 1996. Gross margin as a percentage of net sales in the first nine months of 1997 was 43.6% versus 45% in 1996. The decrease in margin was primarily due to the decline in margins within the semiconductor equipment segment largely attributable to changes in product mix and certain cost increases. Research and development expense increased from \$10.7 million to \$12.3 million and as a percentage of net sales was 9.3% in the first nine months of 1997 compared to 8.2% in 1996 and reflected the Company's continued investment in new product development in the semiconductor equipment business. Selling, general and administrative expense as a percentage of net sales was approximately 12% in both the 1997 and 1996 periods. Interest income in the 1997 period increased 69% to \$2.2 million due to the significant increase in average cash and short-term investment balances. The provision for income taxes expressed as a percentage of pre-tax income was 36.7% in the first nine months of 1997 versus 37.6% for the year ended December 31, 1996. As a result of the factors set forth above, net income decreased 2% to \$20.2 million in the first nine months of 1997 from \$20.7 million in the 1996 period.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1997

LIQUIDITY AND CAPITAL RESOURCES

The Company's net cash flows generated from operating activities in the first nine months of 1997 totaled \$2.3 million. The major components of cash flows from operating activities were net income of \$20.2 million and increases in accounts payable of \$9.7 million and income taxes payable of \$3.1 million offset by increases in accounts receivable of \$16.4 million and inventories of \$16.7 million. Net cash used for investing activities was \$3.3 million and was used for the purchase of short-term investments, less maturities (\$1.1 million) and property, plant and equipment. Net cash used for financing activities was \$1.6 million. Cash used for financing activities included \$1.7 million for the payment of dividends offset by \$1.1 million received from the issuance of stock upon the exercise of stock options. The Company had \$5 million available under its bank line of credit and working capital of \$96.9 million at September 30, 1997. It is anticipated that present working capital and available borrowings under the line of credit will be sufficient to meet the Company's operating requirements for the next twelve months and the remaining anticipated capital expenditures for 1997 of approximately \$2 million.

BUSINESS RISKS AND UNCERTAINTIES

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

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

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

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
SEPTEMBER 30, 1997

BUSINESS RISKS AND UNCERTAINTIES (cont.)

technology could result in a loss of the Company's competitive position and reduced sales of and margins on existing products.

Semiconductor equipment and processes are subject to rapid technological change. The Company believes that its future success will depend in part on its ability to enhance existing products and develop new products with improved performance capabilities. The Company expects to continue to invest heavily in research and development and must manage product transitions successfully as introductions of new products could adversely impact sales of existing products. There can be no assurance that future technologies, processes and product developments will not render the Company's current product offerings obsolete or that the Company will be able to develop and introduce new products or enhancements to its existing products in a timely manner to satisfy customer needs or achieve market acceptance.

Due to these and other factors, historical results may not be indicative of results of operations for any future period. In addition, certain matters discussed above are forward-looking statements that are subject to the risks and uncertainties noted herein and the other risks and uncertainties listed from time to time in the Company's filings with the Securities and Exchange Commission, including but not limited to the 1996 Annual Report on Form 10-K, that could cause actual results to differ materially from those projected or forecasted. The Company undertakes no obligation to update the information, including the forward-looking statements, in this Form 10-Q.

PART II OTHER INFORMATION

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

- (a) Exhibits:
 - 27.1 - Financial Data Schedule
- (b) Reports on Form 8-K: The Company did not file any reports on Form 8-K during the quarter ended September 30, 1997.

SIGNATURES

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

COHU, INC.

(Registrant)

Date: October 30, 1997

/s/ Charles A. Schwan

Charles A. Schwan
President & Chief Executive Officer

Date: October 30, 1997

/s/ John H. Allen

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

This schedule contains summary financial information extracted from 1996 and 1997 Financial Statements and is qualified in its entirety by reference to such Financial Statements.

1000

9-MOS		
	DEC-31-1996	
	JAN-01-1997	
	SEP-30-1997	
		23,093
		29,426
		35,584
		0
		32,287
	131,058	
		17,711
		12,344
		151,225
	34,207	
		0
	0	
		0
		9,492
		106,387
151,225		
		132,173
	132,173	
		74,532
		74,532
		0
		0
		0
		31,867
		11,700
	20,167	
		0
		0
		0
		20,167
		2.03
		0