

COHU INC  
Form DEF 14A  
April 02, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**SCHEDULE 14A**

**PROXY STATEMENT PURSUANT TO SECTION 14(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e) (2) )
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

**COHU, INC.**

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(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box) :

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i) (1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
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- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
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- (1) Amount previously paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:



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**COHU**

12367 Crosthwaite Circle  
Poway, California 92064-6817

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held On May 8, 2007**

**TO OUR STOCKHOLDERS:**

The Annual Meeting of Stockholders of Cohu, Inc. ( Cohu ) will be held at the Cohu corporate offices, located at 12367 Crosthwaite Circle, Poway, California 92064-6817 on Tuesday, May 8, 2007, at 2:00 p.m. Pacific Time, for the following purposes:

1. To elect two directors, each for a term of three years.
2. To ratify the appointment of Ernst & Young LLP as Cohu s independent registered public accounting firm for 2007.
3. To act upon such other matters as may properly come before the meeting or any adjournment thereof.

Only stockholders of record of Cohu as of the close of business on March 13, 2007 will be entitled to vote at the meeting.

Since the holders of a majority of the outstanding shares of voting stock of Cohu entitled to vote at the meeting must be represented to constitute a quorum, all stockholders are urged either to attend the meeting in person or to vote by proxy.

A complete list of the stockholders of record entitled to vote at the meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder, will be available at Cohu s corporate offices, for the examination of any stockholder during normal business hours for a period of ten days immediately prior to the meeting.

Please sign, date and return the enclosed proxy in the envelope enclosed for your convenience. Alternatively, stockholders may vote by telephone or electronically via the internet. Please refer to the instructions included with the proxy for additional details. If you attend the meeting you may revoke your proxy and vote in person. You may also revoke your proxy by delivering a written notice to the Secretary of Cohu, or by submitting another duly signed proxy bearing a later date.

By Order of the Board of Directors,

Thomas L. Green  
Secretary

Poway, California  
April 2, 2007

**YOUR VOTE IS IMPORTANT**

**IN ORDER TO INSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, YOU ARE REQUESTED TO COMPLETE, SIGN AND DATE THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE AND RETURN IT IN THE ENCLOSED POSTAGE PREPAID ENVELOPE OR VOTE BY TELEPHONE OR VIA THE INTERNET.**

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**Cohu, Inc.**

12367 Crosthwaite Circle  
Poway, California 92064-6817

**PROXY STATEMENT**

**GENERAL INFORMATION**

This proxy statement is furnished in connection with the solicitation by the Board of Directors of Cohu, Inc., a Delaware corporation ( Cohu or the Company ), of your proxy for use at the Annual Meeting of Stockholders to be held on Tuesday, May 8, 2007, at 2:00 p.m. Pacific Time at the Cohu corporate offices, located at 12367 Crosthwaite Circle, Poway, California 92064-6817 (the Meeting ). This proxy statement, the accompanying proxy card and the Cohu 2006 Annual Report are being mailed to all stockholders on or about April 2, 2007.

On March 13, 2007, the record date fixed by our Board of Directors (hereinafter sometimes referred to as the Board ), Cohu had outstanding 22,721,017 shares of Common Stock. Only stockholders of record as of the close of business on March 13, 2007 will be entitled to vote at the Meeting and any adjournment thereof.

**Voting Procedures**

As a stockholder of Cohu, you have a right to vote on certain business matters affecting Cohu. The proposals that will be presented at the Meeting and upon which you are being asked to vote are discussed under Proposal No. 1 and Proposal No. 2 . Each share of Cohu s Common Stock you own entitles you to one vote for each proposal. For the election of directors, stockholders may cumulate their votes as described below.

**Methods of Voting**

You may vote by mail, by telephone, over the Internet or in person at the Meeting. Your shares will be voted in accordance with the instructions you indicate. If you do not indicate your voting instructions, your shares will be voted FOR the two named nominees for directors, FOR the ratification of the appointment of Ernst & Young LLP as Cohu s independent registered public accounting firm for 2007 and in the discretion of the proxies (as defined below) as to other matters that may properly come before the Meeting.

**Voting by Mail.** By signing and returning the proxy card in the enclosed prepaid and addressed envelope, you are authorizing the individuals named on the proxy card (known as proxies ) to vote your shares at the Meeting in the manner you indicate. We encourage you to sign and return the proxy card even if you plan to attend the Meeting. In this way, your shares will be voted if you are unable to attend the Meeting. If you received more than one proxy card, it is an indication that your shares are held in multiple accounts. Please sign and return all proxy cards to ensure that all of your shares are voted.

**Voting by Telephone.** To vote by telephone, please follow the instructions included on your proxy card. If you vote by telephone, you do not need to complete and mail your proxy card.

**Voting over the Internet.** To vote over the Internet, please follow the instructions included on your proxy card. If you vote over the Internet, you do not need to complete and mail your proxy card.

**Voting in Person at the Meeting.** If you plan to attend the Meeting and vote in person, we will provide you with a ballot at the Meeting. If your shares are registered directly in your name, you are considered the stockholder of record and you have the right to vote in person at the Meeting. If your shares are held in the name of your broker or other nominee, you are considered the beneficial owner of shares held in street name. If you wish to vote such shares at the Meeting, you will need to bring with you to the Meeting a legal proxy from your broker or other nominee authorizing you to vote such shares.

**Revoking Your Proxy**

You may revoke your proxy at any time before it is voted at the Meeting. In order to do this, you must:  
enter a new vote over the Internet, by telephone or by signing and returning another proxy card bearing a later date;

provide written notice of the revocation to Cohu s Secretary; or

attend the Meeting and vote in person.

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### **Quorum Requirement**

A quorum, which is a majority of the outstanding shares entitled to vote as of the record date, March 13, 2007, must be present in order to hold the Meeting and to conduct business. Shares are counted as being present at the Meeting if you appear in person at the Meeting or if you vote your shares over the Internet, by telephone or by submitting a properly executed proxy card. If any broker non-votes (as described below) are present at the Meeting, they will be counted as present for the purpose of determining a quorum.

### **Votes Required for the Proposals**

The votes required and the method of calculation for the proposals to be considered at the Meeting are as follows. For Proposal No. 1, the two nominees receiving the highest number of votes, in person or by proxy, will be elected as directors. You may vote for the nominees for election as directors or you may withhold your vote with respect to one or both nominees. In the election of directors, stockholders may, as provided for in the Cohu Amended and Restated Certificate of Incorporation, cumulate their votes, giving one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which the stockholder's shares are normally entitled, or distribute the stockholder's votes on the same principle among as many candidates as the stockholder thinks fit. A stockholder may not cumulate his or her votes for a candidate unless a stockholder has given notice at the Meeting (whether by proxy or in person) prior to the voting, of his or her intention to cumulate his or her votes. If any stockholder gives such notice all stockholders may then cumulate their votes. Management of Cohu is hereby soliciting discretionary authority to cumulate votes represented by proxies if cumulative voting is invoked.

The affirmative vote of a majority of Cohu common shares, cast at the Meeting, in person or by proxy, is required for approval of Proposal No. 2, the ratification of the appointment of Ernst & Young LLP as Cohu's independent registered public accounting firm for 2007.

If you return a proxy card that withholds your vote from the election of all directors, your shares will be counted as present for the purpose of determining a quorum but will not be counted in the vote on that proposal.

### **Broker Non-Votes**

If your shares are held in the name of a broker and you do not return a proxy card, brokerage firms have authority to vote your non-voted shares (known as broker non-votes) on certain routine matters. Consequently, if you do not give a proxy to vote your shares, your brokerage firm may either leave your shares unvoted or vote your shares on these routine matters. To the extent your brokerage firm votes shares on your behalf on these proposals, your shares will be included in the determination of whether a quorum is present at the Meeting. Proposal No. 1 and Proposal No. 2 are considered routine matters.

### **Abstentions**

If you abstain from voting for or against a proposal, your abstention will, nevertheless, be included in determining whether or not a quorum is present.

### **Voting Confidentiality**

Proxies, ballots and voting tabulations are handled on a confidential basis to protect your voting privacy. Information will not be disclosed except as required by law.

### **Voting Results**

Final voting results will be announced at the Meeting and will be posted shortly after the Meeting on our website at [www.cohu.com](http://www.cohu.com). Voting results will also be published in Cohu's Quarterly Report on Form 10-Q for the second quarter of 2007, filed with the Securities and Exchange Commission. After the report is filed, you may obtain a copy by:

visiting our website at [www.cohu.com](http://www.cohu.com);

contacting our Investor Relations department at 858-848-8100; or

viewing our Form 10-Q for the second quarter of 2007 on the SEC's website at [www.sec.gov](http://www.sec.gov).

### **Proxy Solicitation Costs**

Cohu will bear the entire cost of proxy solicitation, including the preparation, assembly, printing, mailing and distribution of the proxy materials. Cohu has not engaged an outside solicitor in connection with this proxy solicitation. We will reimburse brokerage firms and other custodians for their reasonable out-of-pocket expenses for forwarding the proxy materials to you.





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**PROPOSAL NO. 1  
ELECTION OF DIRECTORS**

The Cohu Amended and Restated Certificate of Incorporation divides the directors into three classes whose terms expire at successive annual meetings over a period of three years. One class of directors is elected for a term of three years at each annual meeting with the remaining directors continuing in office. At the Meeting, two Class 3 directors are to be elected for a term expiring in 2010. It is intended that the shares represented by proxies in the accompanying form will be voted by the proxy holders for the election of the two nominees named below. In the event the election of directors is to be by cumulative voting, the proxy holders will vote the shares represented by proxies in such proportions as the proxy holders see fit. Should the nominees decline or become unable to accept nomination or election, which is not anticipated, the proxies will be voted for such substitute nominee as may be designated by a majority of the Board of Directors. There is no family relationship between the nominees, other directors or any of Cohu's named executive officers. **The Board of Directors recommends a vote in favor of the two nominees named below.**

**Nominees Whose Terms Expire in 2010 (if elected) Class 3**

<b>Name</b>	<b>Age</b>	<b>Principal Occupation</b>	<b>Director Since</b>
James W. Barnes	77	Served as President and Chief Executive Officer of Cohu from 1983 until his retirement in March, 1996.	1983
James A. Donahue	58	President and Chief Executive Officer of Cohu since June, 2000; President and Chief Operating Officer of Cohu from October, 1999 to June, 2000; President of Delta Design, Inc., a wholly owned subsidiary of Cohu, since May, 1983. Mr. Donahue is also a director of Standard Microsystems Corporation.	1999

**INFORMATION CONCERNING OTHER DIRECTORS**

**Directors Whose Terms Expire in 2008 Class 1**

<b>Name</b>	<b>Age</b>	<b>Principal Occupation</b>	<b>Director Since</b>
Robert L. Ciardella	54	Served as President of Asymtek (a subsidiary of Nordson Corporation) from 1983 until July, 2006. Asymtek designs, develops, manufactures and sells semiconductor and circuit board assembly equipment.	2003
Charles A. Schwan	67	Chairman of the Board; Retired Chief Executive Officer of Cohu since June, 2000; Chairman and Chief Executive Officer of Cohu from July, 1999 to June, 2000; President and Chief Executive Officer of Cohu from March, 1996 to July, 1999; Executive Vice President and Chief Operating Officer of Cohu from September, 1995 to March, 1996; Vice President, Finance of Cohu from 1983 until September, 1995.	1990

**Directors Whose Terms Expire in 2009 Class 2**

<b>Name</b>	<b>Age</b>	<b>Principal Occupation</b>	<b>Director Since</b>
Harry L. Casari	70		1995

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Retired Partner, Ernst & Young LLP. Mr. Casari is also a director of Meade Instruments Corp., Orange 21 Inc. and Catcher Holdings, Inc.

Harold Harrigian	72	Retired Partner and Director of Corporate Finance, Crowell, Weedon & Co., a provider of financial services. Mr. Harrigian is also a former partner, Arthur Young & Company (predecessor of Ernst & Young LLP).	1998
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**PROPOSAL NO. 2**

**RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board has appointed Ernst & Young LLP as Cohu's independent registered public accounting firm for the fiscal year ending December 29, 2007. Ernst & Young LLP served as Cohu's independent registered public accounting firm for the fiscal year ended December 30, 2006 and also provided certain tax and other audit-related services. See "Principal Accountant Fees and Services" on page 11. Representatives of Ernst & Young LLP are expected to attend the Meeting, where they will be available to respond to appropriate questions and, if they desire, to make a statement.

Our Board recommends a vote FOR the ratification of the appointment of Ernst & Young LLP as Cohu's independent registered public accounting firm for the fiscal year ending December 29, 2007. If the appointment is not ratified, the Board will consider whether it should select another independent registered public accounting firm.

**Required Vote and Board of Directors Recommendation**

**The affirmative vote of a majority of shares present, in person or by proxy at the Meeting (provided a quorum is present) is required to approve the ratification of the appointment of Ernst & Young LLP.**

**The Board of Directors recommends that the stockholders approve the ratification of the appointment of Ernst & Young LLP as Cohu's independent registered public accounting firm for the fiscal year ending December 29, 2007.**

**BOARD OF DIRECTORS AND COMMITTEES**

***Director Independence***

Cohu has adopted standards for director independence pursuant to Nasdaq listing standards and Securities and Exchange Commission (SEC) rules. An independent director means a person other than an officer or employee of Cohu or its subsidiaries, or any other individual having a relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. To be considered independent, the Board must affirmatively determine that neither the director nor an immediate family member of the director has had any direct or indirect material relationship with Cohu within the last three years.

The Board considered relationships, transactions and/or arrangements with each of the directors and concluded that none of the non-employee directors has any relationships with Cohu that would impair his independence. The Board has determined that each member of the Board, other than Mr. Donahue, is an independent director under applicable Nasdaq listing standards and SEC rules. Mr. Donahue is an employee of Cohu and thus did not meet the independence standards. In addition, the Board has also determined that:

all directors who serve on the Audit, Compensation and Nominating and Governance Committees are independent under applicable Nasdaq listing standards, Internal Revenue Code requirements and SEC rules, and

all members of the Audit Committee meet the additional independence requirement that they do not directly or indirectly receive compensation from Cohu other than their compensation as directors.

***Board Structure and Committee Composition***

As of the date of this proxy statement, our Board has six directors and the following three committees: (1) Audit, (2) Compensation and (3) Nominating and Governance. The membership during 2006 and the function of each of the committees are described below. Each of the committees operates under a written charter adopted by the Board. All of the committee charters are available on Cohu's website at [www.cohu.com/investors/corporategovernance](http://www.cohu.com/investors/corporategovernance). During 2006, the Board held ten meetings. Each director attended at least 75% of all Board and applicable Committee meetings. Directors are encouraged to attend annual meetings of Cohu stockholders. All six directors attended the last annual meeting of stockholders held on May 9, 2006.

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<b>Name of Director</b>	<b>Audit</b>	<b>Compensation</b>	<b>Nominating and Governance</b>
Independent Directors:			
James W. Barnes			
Harry L. Casari (1)	X	X*	X
Robert L. Ciardella	X	X	X*
Harold Harrigian (1)	X*	X	X
Charles A. Schwan			
Other Director:			
James A. Donahue			
Number of Meetings in 2006	6	12	6

X = Committee member; \* = Chair;

(1) Audit Committee financial expert as defined by SEC Rules.

***Audit Committee***

Cohu has a separately designated standing Audit Committee established in accordance with Section 3(a)(58) of the Securities Exchange Act of 1934, as amended. The Audit Committee assists the Board in fulfilling its responsibilities for general oversight of the integrity of Cohu's financial statements, Cohu's compliance with legal and regulatory requirements, the independent registered public accounting firm's qualifications and independence and risk assessment and risk management. Among other things, the Audit Committee prepares the Audit Committee report for inclusion in the annual proxy statement; annually reviews the Audit Committee charter and the committee's performance; appoints, evaluates and approves the fees of Cohu's independent registered public accounting firm; reviews and approves the scope of the annual audit, the audit fee and the financial statements; reviews Cohu's disclosure controls and procedures, internal controls including such controls over financial reporting, information security policies and corporate policies with respect to financial information and earnings guidance; oversees investigations into complaints concerning financial matters; and reviews other risks that may have a significant impact on Cohu's financial statements. The Audit Committee works closely with management as well as Cohu's independent registered public accounting firm. The Audit Committee has the authority to obtain advice and assistance from, and receive appropriate funding from Cohu for, outside legal, accounting or other advisors as the Audit Committee deems necessary in order to carry out its duties.

The report of the Audit Committee is included herein on page 10 and the charter of the Audit Committee is available at [www.cohu.com/investors/corporategovernance](http://www.cohu.com/investors/corporategovernance).

***Compensation Committee***

The Compensation Committee discharges the Board's responsibilities relating to compensation of Cohu's executives and directors and among other things; reviews and discusses the Compensation Discussion and Analysis with management and produces an annual compensation committee report for inclusion in Cohu's proxy statement; provides general oversight of Cohu's compensation structure, including Cohu's equity compensation plans and benefits programs and retains and approves the terms of the retention of any compensation consultants and other compensation experts. Other specific duties and responsibilities of the Compensation Committee include; reviewing and approving objectives relevant to executive officer compensation, evaluating performance and determining the compensation of executive officers in accordance with those objectives; approving employment agreements for executive officers; approving and amending Cohu's equity and non-equity incentive compensation and related performance goals and measures and stock-related programs (subject to stockholder approval, if required); approving any changes to non-equity based benefit plans involving a material financial commitment by Cohu; recommending to the Board director compensation; monitoring director and executive stock ownership; and annually evaluating its performance

and its charter.

The report of the Compensation Committee is included herein on page 18. The charter of the Compensation Committee is available at [www.cohu.com/investors/corporategovernance](http://www.cohu.com/investors/corporategovernance).

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***Nominating and Governance Committee***

The Nominating and Governance Committee identifies individuals qualified to become Board members, consistent with criteria approved by the Board; oversees the organization of the Board to discharge the Board's duties and responsibilities properly and efficiently; and identifies best practices and recommends corporate governance principles, including giving proper attention and making effective responses to stockholder concerns regarding corporate governance. Other specific duties and responsibilities of the Nominating and Governance Committee include: annually assessing the size and composition of the Board; developing membership qualifications for Board committees; defining specific criteria for director independence; monitoring compliance with Board and Board committee membership criteria; annually reviewing and recommending directors for continued service; coordinating and assisting management and the Board in recruiting new members to the Board; annually, and together with the Chairman of the Compensation Committee, evaluating the performance of the Chairman of the Board and CEO and presenting the results of the review to the Board and to the Chairman and CEO; reviewing and recommending proposed changes to Cohu's charter or Bylaws and Board committee charters; periodically assessing and recommending action with respect to stockholder rights plans or other stockholder protections; recommending Board committee assignments; reviewing and approving any employee director standing for election for outside for-profit boards of directors; reviewing governance-related stockholder proposals and recommending Board responses; overseeing the evaluation of the Board and management and conducting a preliminary review of director independence and the financial literacy and expertise of Audit Committee members. The Chair of the Nominating and Governance Committee receives communications directed to non-employee directors.

The charter of the Nominating and Governance Committee is available at [www.cohu.com/investors/corporategovernance](http://www.cohu.com/investors/corporategovernance).

***Stockholder Nominees***

The policy of the Nominating and Governance Committee is to consider properly submitted stockholder nominations for candidates for membership on the Board as described below under Identifying and Evaluating Nominees for Directors. In evaluating such nominations, the Nominating and Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board and to address the membership criteria set forth under

Director Qualifications. Any stockholder nominations proposed for consideration by the Nominating and Governance Committee should include the nominee's name and qualifications for Board membership and should be addressed to:

Corporate Secretary  
Cohu, Inc.  
12367 Crosthwaite Circle  
Poway, CA 92064-6817

In addition, the Bylaws of Cohu permit stockholders to nominate directors for consideration at an annual stockholder meeting. For a description of the process for nominating directors in accordance with Cohu's Bylaws, see Stockholder Proposals 2008 Annual Meeting on page 25.

***Director Qualifications***

Cohu's Corporate Governance Guidelines are available at [www.cohu.com/investors/corporategovernance](http://www.cohu.com/investors/corporategovernance) and contain Board membership criteria that apply to the nominees recommended by the Nominating and Governance Committee for a position on Cohu's Board. Under these criteria, members of the Board should have the highest professional and personal ethics and values, consistent with longstanding Cohu values and standards. They should have broad experience at the policy-making level in business, government, education, technology and/or public interest. They should also be committed to enhancing stockholder value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. Their service on other boards of public companies should be limited to a number that permits them, given their individual circumstances, to perform responsibly all director duties. Each director must represent the interests of all stockholders.

***Identifying and Evaluating Nominees for Directors***

Our Nominating and Governance Committee uses a variety of methods for identifying and evaluating nominees for director. The Nominating and Governance Committee assesses the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or

otherwise arise, the Nominating and Governance Committee considers various potential candidates for director. Candidates may come to the attention of the Nominating and Governance Committee through current Board members,



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professional search firms, stockholders or other persons. These candidates are evaluated at regular or special meetings of the Nominating and Governance Committee, and may be considered at any point during the year. As described above, the Nominating and Governance Committee also considers properly submitted stockholder nominations for candidates for the Board. Following verification of the stockholder status of persons proposing candidates, recommendations are aggregated and considered by the Nominating and Governance Committee at a regularly scheduled meeting. If any materials are provided by a stockholder in connection with the nomination of a director candidate, such materials are forwarded to the Nominating and Governance Committee. The Nominating and Governance Committee also reviews materials provided by professional search firms or other parties in connection with a nominee who is not proposed by a stockholder. In evaluating such nominations, the Nominating and Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board.

***Executive Sessions***

Executive sessions of independent directors, without management present, are held at least three times a year. The sessions may be scheduled or held on an impromptu basis and are chaired by the Chair of the Nominating and Governance Committee. Any independent director can request that an additional executive session be initiated or scheduled.

***Communications with the Board***

Individuals may communicate with the Board, including the non-employee directors, by submitting an e-mail to Cohu's Board at [corp@cohu.com](mailto:corp@cohu.com) or by sending a letter to the Cohu Board of Directors, c/o Corporate Secretary, Cohu, Inc., 12367 Crosthwaite Circle, Poway, California 92064-6817.

***Compensation of Directors******Cash Compensation***

Directors who are employees of Cohu do not receive any additional compensation for their services as directors. During fiscal 2006, non-employee directors received an annual retainer and Board committee Chairs and members received annual fees, all paid quarterly, as set forth below.

Annual Retainer:	
Chairman of the Board	\$ 50,000
Other Directors	\$ 30,000
Annual Fees for Committee Chairs:	
Audit Committee	\$ 7,500
Nominating and Governance Committee	\$ 7,500
Compensation Committee	\$ 7,500
Annual Fee for Committee members	\$ 3,500

On August 17, 2006, the Compensation Committee approved changes to the cash compensation to be paid to the non-employee directors. The changes were approved by the Compensation Committee after examination of market data and on the recommendation of the Compensation Committee's independent compensation consultant, Compensia, and the changes take effect in fiscal 2007. The annual retainers for the Chairman of the Board and each non-employee Board member were increased to \$60,000 and \$40,000, respectively. The annual fees for the Chair of the Audit, Nominating and Governance and Compensation Committees were increased to \$16,000, \$8,000 and \$10,000, respectively. The annual fees for membership on the Audit, Nominating and Governance and Compensation Committees were increased to \$8,000, \$4,000 and \$5,000, respectively.

In addition to the retainers and fees noted above, non-employee directors are reimbursed for out-of-town travel and other reasonable out-of-pocket expenses related to attendance at Board and committee meetings.

***Equity Compensation***

Non-employee directors participate in the Cohu, Inc. 2005 Equity Incentive Plan (the 2005 Plan) that provides for grants of non-qualified stock options or other forms of equity compensation to non-employee directors, as authorized by the Board.

On August 17, 2006, the Compensation Committee, after examination of market data and on the recommendation of Compensia, recommended and the Board approved the following equity compensation for non-employee directors:



**Table of Contents****Initial appointment to the Board:**

10,000 Stock Options

3,300 Restricted Stock Units (RSUs)

**Annual grants:**

5,000 Stock Options

2,000 Restricted Stock Units (RSUs)

Each RSU represents a contingent right to receive one share of Cohu Common Stock upon vesting. The exercise price for all options granted to non-employee directors is 100% of the fair market value of the shares on the grant date. Assuming continued service on the Board, the stock options and RSUs granted to non-employee directors upon their initial appointment to the Board will vest and become exercisable or shares are issued, as the case may be, in three equal annual installments beginning one year after the date of grant. The annual option and RSU awards vest and become exercisable or shares are issued, as applicable, upon the one-year anniversary of the award. Exercisability of some or all options or RSUs may be accelerated upon a change in control, as defined. The options expire no later than ten years after the date of grant.

On August 17, 2006, stock options to purchase 5,000 shares of Cohu Common Stock and 2,000 RSUs were awarded to each of Messrs. Barnes, Casari, Ciardella, Harrigian and Schwan. The stock options vest and become exercisable one-year after the grant date, have an exercise price of \$16.40 per share, the fair market value of Cohu Common Stock on the date of grant, and expire ten years from the grant date. Cohu will issue to each recipient, assuming continued service as a director, 2,000 shares of Cohu Common Stock after the one-year RSU vesting period.

***Medical Benefits***

Cohu directors, who are retired officers of Cohu and certain other retired Cohu officers, and their spouses receive medical benefits that consist of reimbursement of health insurance premiums and other medical costs not covered by insurance. These benefits are not offered to other retired Cohu employees.

**2006 DIRECTOR COMPENSATION**

The following table provides information on compensation for Cohu's non-employee directors for fiscal 2006.

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-qualified Deferred Earnings	All Other Compensation	Total (\$)
					(\$)		
James W. Barnes	30,000	11,842	12,386			12,555	66,783
Harry L. Casari	44,500	11,842	43,689				100,031
Robert L. Ciardella	44,500	11,842	87,184				143,526
Harold Harrigian	44,500	11,842	43,689				100,031
Charles A. Schwan	50,000	11,842	12,386			23,013	97,241

- (1) Amounts shown do not reflect compensation actually received by the directors. Instead, the amounts shown above are the compensation costs recognized by Cohu in fiscal 2006 for stock awards issued in the form of restricted stock units as determined under Statement of Financial Accounting Standards No. 123(R) ( FAS 123R ) and include amounts from awards granted in fiscal 2006. There were no stock awards in prior years. The assumptions used to calculate the value of the stock awards and the related compensation expense are set forth in Note 5 of the Notes to Consolidated Financial Statements included in Cohu's Annual Report on Form 10-K for the year ended December 30, 2006 filed with the Securities and Exchange Commission. As of December 30, 2006

Messrs. Barnes, Casari, Ciardella, Harrigian and Schwan each had 2,000 RSU s outstanding.

- (2) Amounts shown do not reflect compensation actually received by the directors. Instead, the amounts shown above are the compensation costs recognized by Cohu in fiscal 2006 for option awards as determined under FAS 123R and include amounts from awards granted in fiscal 2006 and prior years. The assumptions used to calculate the value of the option awards and the related compensation expense are set forth in Notes 11 and 5 of the Notes to Consolidated Financial Statements included in Cohu s Annual Report on Form 10-K for the years ended December 31, 2004 and December 30, 2006, respectively, filed with the Securities and Exchange Commission. As of December 30, 2006 Messrs. Barnes, Casari, Ciardella, Harrigian and Schwan had options to purchase 5,000, 30,000, 35,000, 40,000 and 5,000 shares of common stock

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outstanding, respectively.

- (3) Amounts reflect payment of health insurance premiums and reimbursement of other medical costs not covered by health insurance.

**CORPORATE GOVERNANCE**

Cohu has adopted Corporate Governance Guidelines (the Guidelines ) that outline, among other matters, the role and functions of the Board, the responsibilities of various Board committees, selection of new directors and director independence. The Guidelines are available, along with other important corporate governance materials, on our website at [www.cohu.com/investors/corporategovernance](http://www.cohu.com/investors/corporategovernance). As the operation of the Board is a dynamic process, the Board regularly reviews new or changing legal and regulatory requirements, evolving best practices and other developments and the Board may modify the Guidelines, as appropriate, from time to time.

**CODE OF BUSINESS CONDUCT AND ETHICS**

Cohu has adopted a Code of Business Conduct and Ethics (the Code ). The Code applies to all of Cohu s directors and employees including its principal executive officer, principal financial officer and principal accounting officer. The Code, among other things, is designed to promote:

1. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
2. Full, fair, accurate, timely and understandable disclosure in reports and documents that Cohu files with, or submits to, the SEC and in other public communications made by Cohu;
3. Compliance with applicable governmental laws, rules and regulations;
4. The prompt internal reporting of violations of the Code to an appropriate person or persons identified in the Code; and
5. Accountability for adherence to the Code.

The Code is available at [www.cohu.com/investors/corporategovernance](http://www.cohu.com/investors/corporategovernance) and is included as Exhibit 14 to Cohu s Annual Report on Form 10-K for the year ended December 30, 2006.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding beneficial ownership of Cohu's Common Stock as of February 22, 2007 or as of December 31, 2006 for certain stockholders by (i) each person known by Cohu, based on information provided by such person, to own more than 5% of Cohu's Common Stock; (ii) each director of Cohu; (iii) each named executive officer included in the 2006 Summary Compensation Table; and (iv) all directors and executive officers as a group.

<b>Name and address of beneficial owner</b>	<b>Beneficially owned common stock</b>	<b>Common stock equivalents (1)</b>	<b>Total</b>	<b>Percent of class (2)</b>
Franklin Resources, Inc. (3) One Franklin Parkway, San Mateo, CA 94403	1,855,000		1,855,000	8.16%
Nick Cedrone (4) One Monarch Drive, Littleton, MA 01460	1,286,138		1,286,138	5.66%
Barclays Global Investors Japan Limited (5) 1-1-39 Hiroo Shibuya-Ku, Tokyo 150-8402 Japan	1,179,543		1,179,543	5.19%
Rutabaga Capital Management (6) 64 Broad Street, Boston MA 02109	1,149,382		1,149,382	5.06%
John H. Allen	18,528	182,501	201,029	*
James W. Barnes	290,819		290,819	1.28%
Harry L. Casari	1,600	22,500	24,100	*
Robert L. Ciardella		22,500	22,500	*
James A. Donahue	68,600	417,501	486,101	2.10%
Harold Harrigian	2,600	32,500	35,100	*
Thomas G. Lightner	1,702	55,001	56,703	*
James G. McFarlane	18,168	108,752	126,920	*
Colin P. Scholefield	3	97,001	97,004	*
Charles A. Schwan	33,584		33,584	*
All directors and executive officers as a group (10 persons)	435,604	938,256	1,373,860	5.81%

\* Less than 1%

(1) Shares issuable upon exercise of stock options held by directors and executive officers that were exercisable on or within 60 days of

February 22,  
2007.

(2) Computed on the basis of 22,719,517 shares of common stock outstanding as of February 22, 2007, plus, with respect to each person holding options to purchase common stock exercisable within 60 days of February 22, 2007, the number of shares of common stock issuable upon exercise thereof.

(3) According to Schedule 13G filed with the Securities and Exchange Commission on February 5, 2007, Franklin Resources, Inc. reported that Franklin Advisory Services, LLC had sole voting and dispositive power with respect to 1,837,500 and 1,855,000 shares, respectively, and no shared voting or dispositive power with

respect to these shares.

(4) According to Schedule 13G filed with the Securities and Exchange Commission on January 25, 2007.

(5) According to Schedule 13G filed with the Securities and Exchange Commission on January 23, 2007, Barclays Global Investors Japan Limited reported that its affiliated companies collectively had sole voting and dispositive power with respect to 1,118,671 and 1,179,543 shares, respectively, and no shared voting or dispositive power with respect to these shares.

(6) According to Schedule 13G filed with the Securities and Exchange Commission on January 24, 2007, Rutabaga Capital Management



reported that it had sole voting and dispositive power with respect to 852,733 and 1,149,382 shares, respectively, and shared voting power with respect to 296,649 shares.

#### **AUDIT COMMITTEE REPORT**

*The information contained in this report shall not be deemed to be soliciting material or filed with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act) except to the extent that Cohu specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended (the Securities Act) or the Exchange Act.*

**Table of Contents****Composition**

The Audit Committee of the Board of Directors is composed of three independent directors, as defined in the Nasdaq listing standards and operates under a written charter adopted by the Board of Directors. The current members of the Audit Committee are Harold Harrigian (Chairman), Harry L. Casari and Robert L. Ciardella.

**Responsibilities**

The Audit Committee assists the Board in fulfilling its responsibilities for general oversight of the integrity of Cohu's financial statements, Cohu's compliance with legal and regulatory requirements, the independent registered public accounting firm's qualifications and independence and risk assessment and risk management. The Audit Committee manages Cohu's relationship with its independent registered public accounting firm (who report directly to the Audit Committee). The Audit Committee has the authority to obtain advice and assistance from outside legal, accounting or other advisors as the Audit Committee deems necessary to carry out its duties and receive appropriate funding, as determined by the Audit Committee, from Cohu for such advice and assistance.

Cohu's management has primary responsibility for preparing Cohu's financial statements and Cohu's financial reporting process. Cohu's independent registered public accounting firm, Ernst & Young LLP, is responsible for expressing an opinion on (i) the conformity of Cohu's audited financial statements with accounting principles generally accepted in the United States and (ii) management's assessment and their own as to the effectiveness of Cohu's internal control over financial reporting.

**Review with Management and Independent Registered Public Accounting Firm**

In this context, the Audit Committee has reviewed and discussed the audited consolidated financial statements contained in Cohu's Annual Report on Form 10-K for the year ended December 30, 2006 and Cohu's effectiveness of internal control over financial reporting, together and separately, with management and the independent registered public accounting firm. The Audit Committee also discussed with Ernst & Young LLP matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*.

Ernst & Young LLP also provided to the Audit Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*. The Audit Committee discussed with Ernst & Young LLP any relationships that may impact their objectivity and independence, and satisfied itself as to Ernst & Young's independence.

**Summary**

Based upon the Audit Committee's discussions with management and Ernst & Young LLP and the Audit Committee's review of the representations of management, and the reports of Ernst & Young LLP to the Audit Committee, the Audit Committee recommended to the Board of Directors, and the Board approved, that the audited consolidated financial statements be included in Cohu's Annual Report on Form 10-K for the year ended December 30, 2006, for filing with the Securities and Exchange Commission.

This report is submitted by the Audit Committee.

Harold Harrigian (Chairman)

Harry L. Casari

Robert L. Ciardella

**PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table shows the fees billed to Cohu for the audit and other services provided by Ernst & Young LLP for the years ended December 30, 2006 and December 31, 2005 (*in thousands*).

	<b>2006</b>	<b>2005</b>
Audit Fees <sup>(1)</sup>	\$ 649	\$ 603
Audit-Related Fees <sup>(2)</sup>	19	10
Tax Fees:		
Tax Compliance <sup>(3)</sup>	59	72
Tax Planning and Advice	13	
	72	72
All Other Fees		

Total \$ 740 \$ 685

The Audit Committee has established pre-approval policies and procedures concerning the engagement of Cohu s

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independent registered public accounting firm to perform any services. These policies require that all services rendered by Cohu's independent registered public accounting firm be pre-approved by the Audit Committee within specified, budgeted fee amounts. In addition to the approval of all audit fees in 2006 and 2005, 100% of the non-audit fees were pre-approved by the Audit Committee.

The Audit Committee has delegated to the Chair of the Audit Committee the authority to pre-approve audit-related and non-audit services not prohibited by law to be performed by Cohu's independent registered public accounting firm with associated fees up to a maximum of \$10,000 for any one non-audit service, provided that the Chair shall report any decisions to pre-approve such audit-related or non-audit services and fees to the full Audit Committee at its next regular meeting.

- (1) Audit fees represent fees for professional services provided in connection with the audit of Cohu's financial statements and review of Cohu's quarterly financial statements and audit services provided in connection with other statutory or regulatory filings. In addition, audit fees include those fees related to Ernst & Young LLP's audit of the effectiveness of Cohu's internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

- (2) Audit-related fees consisted primarily of

accounting  
consultation  
services related  
to business  
acquisitions and  
divestitures and  
other attestation  
services.

- (3) Tax compliance fees consisted primarily of assistance with (i) preparation of Cohu's federal, state and foreign tax returns; (ii) tax return examinations and (iii) expatriate tax return filings.

## **EXECUTIVE COMPENSATION AND RELATED INFORMATION**

### **Compensation Discussion and Analysis**

#### ***Overview of Compensation Program and Philosophy***

Cohu's compensation program is intended to meet three principal objectives: (1) attract, reward and retain officers and other key employees; (2) motivate these individuals to achieve short-term and long-term corporate goals that enhance stockholder value; and (3) support Cohu's core values and culture, by promoting internal equity and external competitiveness. To meet these objectives, Cohu has adopted the following overriding policies:

Pay compensation that is competitive with the practices of other leading high technology companies; and

Pay for performance by:

- setting challenging performance goals for our officers and providing a short-term incentive through an incentive compensation plan that is based upon achievement of these goals; and
- providing long-term, significant incentives in the form of restricted stock units ( RSUs ) and/or stock options, in order to retain those individuals with the leadership abilities necessary for increasing long-term stockholder value