

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, 2001

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 ☒ No ☐

As of September 30, 2001, the Registrant had 20,482,389 shares of its \$1.00 par value common stock outstanding.

TABLE OF CONTENTS

[CONDENSED CONSOLIDATED BALANCE SHEETS](#)

[CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS](#)

[CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS](#)

[NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS](#)

[MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS](#)

[Quantitative and qualitative disclosures about market risk.](#)

[Item 6. Exhibits and Reports on Form 8-K.](#)

[SIGNATURES](#)

[EXHIBIT 10.1](#)

[EXHIBIT 10.2](#)

COHU, INC.
INDEX
FORM 10-Q
SEPTEMBER 30, 2001

Part I Financial Information

Page Number

Item 1. Financial Statements:

Condensed Consolidated Balance Sheets (Unaudited) September 30, 2001 and December 31, 2000

3

Condensed Consolidated Statements of Operations (Unaudited) Three and Nine Months Ended September 30, 2001 and 2000

4

Notes to Unaudited Condensed Consolidated Financial Statements

6

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

9

Item 3. Quantitative and Qualitative Disclosures about Market Risk

16

Part II Other Information

Item 6. Exhibits and Reports on Form 8-K

17

Signatures

17

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

	September 30, 2001	December 31,
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 70,015	\$ 79,119
Short-term investments	18,366	13,468
Accounts receivable, less allowance for doubtful accounts of \$2,154 in 2001 and \$2,227 in 2000	16,698	37,164
Note receivable	9,375	—
Inventories:		
Raw materials and purchased parts	16,985	22,120
Work in process	11,013	17,133
Finished goods	6,121	6,786
	34,119	46,039
Deferred income taxes	16,781	13,781
Other current assets	6,998	3,145
Total current assets	172,352	192,716
Property, plant and equipment, at cost:		
Land and land improvements	8,917	2,501
Buildings and building improvements	24,608	12,795
Machinery and equipment	23,286	22,138
Land and building to be acquired	—	21,288
	56,811	58,722
Less accumulated depreciation and amortization	20,368	20,605
Net property, plant and equipment	36,443	38,117
Goodwill, net of accumulated amortization of \$3,127 in 2001 and \$2,549 in 2000	8,340	578
Other intangible assets, net of accumulated amortization of \$36	824	—
Other assets	180	84
	\$218,139	\$231,495
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,166	\$ 7,604
Accrued compensation and benefits	6,201	8,955
Accrued warranty	2,683	4,916
Customer advances	2,555	834
Deferred profit	1,301	5,960
Other accrued liabilities	4,657	3,864
Total current liabilities	22,563	32,133
Accrued retiree medical benefits	1,038	1,058
Deferred income taxes	3,464	464
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	—	—
Common stock	20,482	20,313
Paid in excess of par	10,701	8,957
Retained earnings	159,891	168,570
Total stockholders' equity	191,074	197,840
	\$218,139	\$231,495

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
		(restated)		(restated)
Net sales	\$25,430	\$74,188	\$ 98,429	\$233,681
Cost and expenses:				
Cost of sales	21,387	44,700	75,306	140,602
Research and development	7,004	9,123	22,071	24,191
Selling, general and administrative	6,472	8,062	19,692	23,326
Gain on sale of facilities	(7,746)	—	(7,746)	—
Acquired in-process research and development	2,050	—	2,050	—
	29,167	61,885	111,373	188,119
Income (loss) from operations	(3,737)	12,303	(12,944)	45,562
Interest income	1,095	1,574	3,529	4,176
Income (loss) before income taxes	(2,642)	13,877	(9,415)	49,738
Provision (credit) for income taxes	(1,200)	4,840	(3,800)	17,320
Income (loss) before cumulative effect of change in accounting principle	(1,442)	9,037	(5,615)	32,418
Cumulative effect of change in accounting principle, net of \$1,700 tax benefit	—	—	—	(3,299)
Net income (loss)	\$ (1,442)	\$ 9,037	\$ (5,615)	\$ 29,119
Basic earnings (loss) per share:				
Income (loss) before cumulative effect of change in accounting principle	\$ (.07)	\$.45	\$ (.28)	\$ 1.61
Cumulative effect of change in accounting principle	—	—	—	(.16)
Net income (loss)	\$ (.07)	\$.45	\$ (.28)	\$ 1.45
Weighted average shares used in basic per share calculation	20,470	20,246	20,409	20,169
Diluted earnings (loss) per share:				
Income (loss) before cumulative effect of change in accounting principle	\$ (.07)	\$.43	\$ (.28)	\$ 1.53
Cumulative effect of change in accounting principle	—	—	—	(.16)
Net income (loss)	\$ (.07)	\$.43	\$ (.28)	\$ 1.37
Weighted average shares used in diluted per share calculation	20,470	20,910	20,409	21,154
Cash dividends declared per share	\$.05	\$.05	\$.15	\$.15

See accompanying notes.

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

	Nine Months Ended September 30,	
	2001	2000
		(restated)
Cash flows from operating activities:		
Net income (loss)	\$ (5,615)	\$ 29,119
Adjustments to reconcile net income (loss) to net cash provided from operating activities:		
Depreciation and amortization	3,663	2,474
Gain on sale of facilities	(7,746)	—
Acquired in-process research and development	2,050	—
Decrease in accrued retiree medical benefits	(20)	(19)
Changes in current assets and liabilities, net of effects from purchase of Automated Systems:		
Accounts receivable	21,166	(612)
Inventories	14,420	6,428
Other current assets	(3,753)	(559)
Accounts payable	(2,438)	(38)
Income taxes payable	—	(1,530)
Customer advances	1,721	(18,256)
Deferred profit	(4,659)	3,730
Accrued compensation, warranty and other liabilities	(4,644)	2,555
Net cash provided from operating activities	14,145	23,292
Cash flows from investing activities:		
Purchases of short-term investments	(11,119)	(5,977)
Maturities of short-term investments	6,221	21,383
Net proceeds from sale of facilities	2,699	—
Purchases of property, plant, equipment and other assets	(5,599)	(2,278)
Purchase of Automated Systems assets	(14,300)	—
Net cash provided from (used for) investing activities	(22,098)	13,128
Cash flows from financing activities:		
Issuance of stock, net	1,913	2,977
Cash dividends	(3,064)	(3,033)
Net cash used for financing activities	(1,151)	(56)
Net increase (decrease) in cash and cash equivalents	(9,104)	36,364
Cash and cash equivalents at beginning of period	79,119	55,954
Cash and cash equivalents at end of period	\$ 70,015	\$ 92,318
Supplemental disclosure of cash flow information:		
Cash paid (refunded) during the period for:		
Income taxes	\$ (10)	\$ 19,030

See accompanying notes.

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001

1. Basis of Presentation

The accompanying interim financial statements are unaudited but include all adjustments (consisting of normal recurring adjustments) which Cohu, Inc. (the "Company" or "Cohu") considers necessary for a fair statement of the results for the period. The operating results for the three and nine months ended September 30, 2001 are not necessarily indicative of the operating results for the entire year or any future period. These financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000 and management's discussion and analysis of financial condition and results of operations included elsewhere herein.

Cohu adopted Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, on January 1, 2001. SFAS No. 133 requires, among other things, that all derivatives be recognized in the balance sheet at fair value and special accounting for hedging activities that meet certain criteria. The Company generally does not hold derivative instruments or engage in hedging activities and as a result the adoption of SFAS No. 133 has had no material effect on the Company's financial condition or results of operations.

In June 2001, Cohu wrote-off \$434,000 of goodwill related to an acquisition completed in 1994. The write-off resulted from the decline in forecasts for the Company's semiconductor equipment products as a consequence of the worldwide semiconductor equipment industry downturn.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized, but are reviewed annually for impairment or more frequently if impairment indicators arise. Separable intangible assets that have finite lives will continue to be amortized over their useful lives. The Company accounted for the purchase of the assets of Automated Systems in accordance with SFAS No. 141 and 142 (see Note 6).

2. Change in Accounting for Revenue Recognition

In the fourth quarter of 2000, the Company changed its method of revenue recognition for certain semiconductor equipment sales to comply with SEC Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* ("SAB 101"). SAB 101 sets forth guidelines on the timing of revenue recognition based on factors such as passage of title, installation, payment and customer acceptance. The cumulative effect adjustment of the change in accounting on prior years through December 31, 1999 was a reduction to income of \$3,299,000 (after credit for income taxes of \$1,700,000) and is included in income for the nine months ended September 30, 2000. The change was effective January 1, 2000 and amounts previously reported for the three and nine months ended September 30, 2000 have been restated to reflect the application of SAB 101. The effect of the change on the third quarter of 2000 was to decrease net sales \$3,028,000 to \$74,188,000 and decrease income before cumulative effect of change in accounting principle \$775,000 (\$.04 per diluted share) to \$9,037,000 (\$.43 per diluted share).

3. Earnings (Loss) Per Share

Earnings (loss) per share are computed in accordance with SFAS No. 128, *Earnings per Share*. Basic earnings (loss) per share are computed using the weighted average number of common shares outstanding during each period. Diluted earnings per share include the dilutive effect of common shares potentially issuable upon the exercise of stock options. For purposes of computing diluted earnings 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, 2000, options to purchase approximately 153,000 and 68,000 shares of common stock at average prices of \$28.65 and \$31.17, respectively, were excluded from the

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001

computation. The impact of stock options is excluded for loss periods as they would be antidilutive. The following table reconciles the denominators used in computing basic and diluted earnings (loss) per share:

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
	(in thousands)		(in thousands)	
Weighted average common shares outstanding	20,470	20,246	20,409	20,169
Effect of dilutive stock options	—	664	—	985
	20,470	20,910	20,409	21,154

4. Segment and Related Information

The following information is presented pursuant to SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. Intersegment sales were not significant in any period. Amounts for the three and nine months ended September 30, 2000 have been restated for the impact of SAB 101.

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
	(in thousands)		(in thousands)	
Net sales:				
Semiconductor equipment	\$18,032	\$64,235	\$ 75,056	\$204,089
Television cameras	4,812	7,134	15,729	20,551
Net sales for reportable segments	22,844	71,369	90,785	224,640
All other	2,586	2,819	7,644	9,041
Total consolidated net sales	\$25,430	\$74,188	\$ 98,429	\$233,681
Profit (loss):				
Semiconductor equipment	\$ (8,800)	\$12,628	\$ (16,801)	\$ 45,753
Television cameras	(9)	638	554	1,743
Profit (loss) for reportable segments	(8,809)	13,266	(16,247)	47,496
All other	(220)	(169)	(548)	(66)
Total consolidated profit (loss)	(9,029)	13,097	(16,795)	47,430
Other unallocated amounts:				
Gain on sale of facilities	7,746	—	7,746	—
Acquired in-process research and development	(2,050)	—	(2,050)	—
Corporate expenses	(404)	(722)	(1,267)	(1,652)
Interest income	1,095	1,574	3,529	4,176
Goodwill amortization/write-down	—	(72)	(578)	(216)
Income (loss) before income taxes	\$ (2,642)	\$13,877	\$ (9,415)	\$ 49,738

	September 30, 2001	December 31, 2000
	(in thousands)	
Total assets by segment:		
Semiconductor equipment	\$ 90,631	\$110,612
Television cameras	9,830	10,951
Total assets for reportable segments	100,461	121,563
All other operating segments	7,045	6,477
Corporate, principally cash and investments	110,633	103,455
Total consolidated assets	\$218,139	\$231,495

COHU, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001

5. Real Estate Transactions

On April 16, 2001, the Company sold its land and buildings in San Diego, California to TC Kearny Villa, L.P., an unrelated party, for \$12.5 million, excluding commissions and other related expenses. The \$12.5 million purchase price included a cash payment of \$3.1 million and a \$9.4 million, 8% non-recourse note, secured by a deed of trust on the property, due in six months. The note provided for a 180-day extension option that was exercised in September 2001, extending the due date to April 2002. The Company entered into a three-month leaseback of the property with the buyer that expired in July 2001. The sale-leaseback transaction was accounted for as a financing pursuant to SFAS No. 98, *Accounting for Leases*. The Company recorded a gain on the transaction of approximately \$7.7 million in the third quarter of 2001, upon the expiration of the leaseback.

On April 23, 2001, the Company completed the acquisition of a 338,000 square-foot office/industrial building and approximately twenty acres of land in Poway, California (the "Poway Facility"). The purchase price of the Poway Facility was approximately \$21.3 million and was funded from the Company's cash reserves in October 2000. The purchase price has been allocated between land and land improvements and buildings and building improvements in the September 30, 2001 Unaudited Condensed Consolidated Balance Sheet. The Company remodeled the Poway Facility at a cost of approximately \$3.5 million and moved its corporate headquarters and the San Diego operations of its Delta Design subsidiary to the Poway Facility in June 2001.

6. Purchase of Automated Systems Assets

On July 16, 2001, the Company purchased the assets of the Automated Systems business ("AS") from Schlumberger Technologies, Inc. The results of AS's operations have been included in the consolidated financial statements since that date. AS designs, manufactures and sells semiconductor equipment including pick and place test handlers and burn-in board loaders and unloaders. AS has technology and intellectual property associated with precise temperature control and heat dissipation of high-speed, high-power ICs during test that is expected to extend the capabilities of the Company's semiconductor equipment products.

The aggregate cash purchase price of AS was \$14.2 million. The Company engaged an independent firm to assist in the valuation of the intangible assets acquired and the allocation of the purchase price in accordance with SFAS No. 141. While the Company believes the allocation of the purchase price noted below is substantially complete, it is subject to refinement.

The \$14.2 million cash purchase price, plus \$100,000 of related acquisition costs, was allocated as follows (in thousands):

Current assets	\$ 3,200
Fixed assets	200
Intangible assets	3,010
Goodwill	8,340
Total assets acquired	14,750
Current liabilities assumed	(450)
Net assets acquired	\$14,300

Of the \$3,010,000 of acquired intangible assets, \$2,050,000 was assigned to research and development assets that were written off at the date of the acquisition in accordance with FASB interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*. The remaining intangible assets include, among other things, a license valued at \$360,000 and core technology valued at \$500,000, both with estimated useful lives of 5 years. All assets are expected to be fully deductible for tax purposes. The goodwill was assigned to the semiconductor equipment segment.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
September 30, 2001

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

RESULTS OF OPERATIONS

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

Third Quarter 2001 Compared to Third Quarter 2000

In the fourth quarter of 2000, Cohu changed its method of accounting for revenue recognition to comply with SEC Staff Accounting Bulletin No. 101 ("SAB 101"). In accordance with SAB 101, the new method of accounting has been applied retroactively to transactions that occurred prior to 2000. The cumulative effect adjustment of the change in accounting on prior years through December 31, 1999 was a reduction to income of \$3.3 million (after credit for income taxes of \$1.7 million) and is included in the operating results for the nine months ended September 30, 2000.

Cohu continued to be impacted by the downturn in the semiconductor equipment industry that began in late 2000 and as a result our net sales decreased 66% to \$25.4 million in 2001 compared to net sales of \$74.2 million in 2000. Sales of semiconductor test handling equipment in 2001 decreased 72% from the 2000 period and accounted for 71% of consolidated net sales in 2001 versus 87% in 2000. Sales of television cameras and other equipment accounted for 19% of net sales in 2001 and decreased 33% while the combined sales of metal detection and microwave equipment decreased 8%.

The Company recognized a pretax gain in the third quarter of 2001 of approximately \$7.7 million from the sale of its San Diego facilities. The third quarter of 2001 was also impacted by a pretax charge of approximately \$2.1 million for acquired in-process research and development as a result of the Company's July 16, 2001 purchase of the assets of Automated Systems. As disclosed in Note 6 to the Unaudited Condensed Consolidated Financial Statements included elsewhere herein, a significant portion of the \$14.2 million purchase price has been allocated to goodwill and other intangible assets. These assets are subject to periodic review for impairment that could result in significant charges to operating results in future periods.

Gross margin as a percentage of net sales decreased to 15.9% in 2001 from 39.7% in 2000 primarily as a result of lower margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins decreased in 2001 primarily as a result of decreased business volume and increased provisions for excess and obsolete inventory. In the quarter ended September 30, 2001, the Company recorded pretax inventory related charges of approximately \$4.7 million primarily as a result of changes in customer forecasts. Continued changes to customer forecasts may require additional provisions for excess and obsolete inventories that may negatively impact gross margin in future periods. Research and development expense ("R&D") as a percentage of net sales was 27.5% in 2001, compared to 12.3% in 2000, decreasing in absolute dollars from \$9.1 million in 2000 to \$7.0 million in 2001. The decrease in R&D was primarily the result of lower R&D material costs. Selling, general and

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
September 30, 2001

administrative ("SG&A") expense as a percentage of net sales increased to 25.5% in 2001 from 10.9% in 2000 primarily as a result of the decrease in business volume. Interest income declined to \$1.1 million in 2001 from \$1.6 million in 2000, as a result of lower interest rates. The provision (credit) for income taxes expressed as a percentage of pre-tax income was (45.4)% in the third quarter of 2001 and 34.9% in 2000. As a result of the factors set forth above, the net loss was \$1.4 million in 2001 compared to net income of \$9.0 million in 2000.

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

Cohu was impacted by the downturn in the semiconductor equipment industry that began in late 2000 and as a result our net sales decreased 58% to \$98.4 million in 2001 compared to net sales of \$233.7 million in 2000. Sales of semiconductor test handling equipment in 2001 decreased 63% from the 2000 period and accounted for 76% of consolidated net sales in 2001 versus 87% in 2000. Sales of television cameras and other equipment accounted for 16% of net sales in 2001 and decreased 23% while the combined sales of metal detection and microwave equipment decreased 15%.

The Company recognized a pretax gain in the third quarter of approximately \$7.7 million from the sale of its San Diego facilities. The third quarter of 2001 was also impacted by a pretax charge of approximately \$2.1 million for acquired in-process research and development as a result of the Company's July 16, 2001 purchase of the assets of Automated Systems.

Gross margin as a percentage of net sales decreased to 23.5% in 2001 from 39.8% in 2000 primarily as a result of lower margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins decreased in 2001 primarily as a result of decreased business volume and increased provisions for excess and obsolete inventory. In the nine months ended September 30, 2001, the Company recorded pretax inventory related charges of approximately \$13.5 million primarily as a result of changes in customer forecasts. Continued changes to customer forecasts may require additional provisions for excess and obsolete inventories that may negatively impact gross margin in future periods. Research and development expense as a percentage of net sales was 22.4% in 2001, compared to 10.4% in 2000, decreasing from \$24.2 million to \$22.1 million. SG&A expense as a percentage of net sales increased to 20.0% in 2001 from 10.0% in 2000 primarily as a result of the decrease in business volume. SG&A expense in 2001 includes \$.6 million of goodwill amortization offset by a \$.7 million reduction in the allowance for doubtful accounts and bad debt expense. Interest income was \$3.5 million and \$4.2 million in 2001 and 2000, respectively. The decline in interest income resulted from lower interest rates. The provision (credit) for income taxes expressed as a percentage of pre-tax income was (40.4)% for the first nine months of 2001 and 34.8% in 2000. As a result of the factors set forth above, the net loss was \$5.6 million in 2001 compared to net income of \$29.1 million in 2000.

LIQUIDITY AND CAPITAL RESOURCES

The Company's net cash flows provided by operating activities in the first nine months of 2001 totaled \$14.1 million. The major components of cash flows provided by operating activities were a net loss of \$5.6 million offset by the net change in current assets and liabilities totaling \$21.8 million. The significant decrease in net current assets was primarily the result of the decline in business levels from December 2000 to September 2001 due to the downturn in the worldwide demand for semiconductor equipment. Net cash used for investing activities included \$4.9 million for the purchase of short-term investments, less maturities, purchases of property, plant and equipment and other assets of \$5.6 million offset by net proceeds from sale of facilities of \$2.7 million. In July 2001 Cohu purchased the assets of Automated Systems for \$14.3 million cash. Net cash used for financing activities was \$1.2 million. Cash provided by financing activities included \$1.9 million received from the issuance of stock upon the exercise of stock options offset by \$3.1 million for the payment of dividends. The Company had \$10 million available under its bank line of credit and working capital of \$149.8 million at September 30, 2001. It is anticipated that present working capital and available borrowings under the line of credit will be sufficient to meet the Company's operating requirements for at least the next twelve months.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
September 30, 2001

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 into 2001. Reductions in capital equipment investment by semiconductor manufacturers and semiconductor test subcontractors will materially and adversely affect our business, financial position and results of operations. In addition, the volatile and unpredictable nature of semiconductor equipment demand has in the past and may in the future expose us to significant excess and obsolete inventory write-offs and reserve requirements. In the nine months ended September 30, 2001, the Company recorded pretax inventory related charges of approximately \$13.5 million primarily as a result of changes in customer forecasts.

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

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

We are exposed to risks associated with acquisitions.

Cohu has made, and may in the future make, acquisitions of, or significant investments in, businesses with complementary products, services and/or technologies. In July 2001, Cohu acquired the assets of the Automated Systems business from Schlumberger Technologies, Inc. for \$14.2 million in cash. A significant portion of the purchase price was allocated to goodwill and other intangible assets. Acquisitions involve numerous risks, including, but not limited to: 1) difficulties and increased costs in connection with integration of the personnel, operations, technologies and products of acquired businesses; 2) diversion of management's attention from other operational matters; 3) the potential loss of key employees of acquired businesses; 4) lack of synergy, or the inability to realize expected synergies, resulting from the acquisition; 5) failure to commercialize purchased technology; and 6) the impairment of acquired intangible assets, including goodwill, that could result in significant charges to operating results in future periods. Mergers and acquisitions are inherently risky and the inability to effectively manage these risks could materially and adversely affect Cohu's business, financial condition and results of operations.

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

Semiconductor equipment and processes are subject to rapid technological change. We believe that our future success will depend in part on our ability to enhance existing products and develop new products with improved performance capabilities. We expect to continue to invest heavily in research and development and must manage product transitions successfully, as introductions of new products could adversely impact sales or margins of existing

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
September 30, 2001

TRENDS, RISKS AND UNCERTAINTIES (cont.)

products. In addition, the introduction of new products, by Cohu or by our competitors, the concentration of our revenues in a limited number of large customers, the migration to new IC test handling methodologies and the custom nature of our inventory parts increases the risk that our established products and related inventory may become obsolete resulting in significant excess and obsolete inventory exposure. This increased exposure resulted in significant charges to operations during the third and fourth quarters of 2000 and the first three quarters of 2001. Future inventory write-offs and increased inventory reserve requirements could have a material adverse impact on our results of operations and financial condition.

The design, development, commercial introduction and manufacture of new semiconductor test handling equipment is an inherently complex process that involves a number of risks and uncertainties. These risks include potential problems in meeting customer performance requirements, integration of the test handler with other suppliers' equipment and the customers' manufacturing processes, transitioning from product development to volume manufacturing and the ability of the equipment to satisfy the semiconductor industry's constantly evolving needs and achieve commercial acceptance at prices that produce satisfactory profit margins. The design and development of new test handling equipment is heavily influenced by changes in integrated circuit (IC) back-end 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 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 may in the future experience difficulties in manufacturing and volume production of our new test handlers. In addition, our after sale support and warranty costs have been significantly higher with new test handlers than with our established products. Future technologies, processes and product developments may render our current or future product offerings obsolete and we might not be able to develop, introduce and successfully manufacture new products or make enhancements to our existing products in a timely manner to satisfy customer requirements or achieve market acceptance. Furthermore, we might not realize acceptable profit margins on such products.

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

The semiconductor test handler industry is intensely competitive and we face substantial competition from numerous companies throughout the world. Future competition may include companies that do not currently supply test handlers. The Japanese and Korean markets for test handling equipment are large and represent a significant percentage of the worldwide market. During the last five years we have had limited sales to Japanese and Korean customers who have historically purchased test handling equipment from Asian suppliers. Some of our competitors have substantially greater financial, engineering, manufacturing and customer support capabilities and offer more extensive product offerings than Cohu. In addition, there are smaller, emerging semiconductor equipment companies that provide or may provide innovative technology incorporated in products that may compete favorably against those of Cohu. We expect our competitors to continue to improve the design and performance of their current products and introduce new products with improved performance capabilities. Our failure to introduce new products

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
September 30, 2001

TRENDS, RISKS AND UNCERTAINTIES (cont.)

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.

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 2000, four customers of the semiconductor equipment segment accounted for 50% (46% in 1999 and 60% in 1998) of our net sales. During the first nine months of 2001 our customer concentration has intensified as a result of depressed business conditions. The loss of or a significant reduction in orders by these or other significant customers as a result of competitive products, market conditions, outsourcing final IC test to test subcontractors that are not our customers or other factors, would adversely impact our 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.

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

Our order backlog has historically represented approximately three months of revenue and as a result our visibility of future business activity is limited. Our revenues in the quarter ended September 30, 2001 were, however, significantly lower than our backlog at June 30, 2001, due primarily to customer requested changes to delivery schedules and order cancellations. Due to the possibility of customer changes in delivery schedules, cancellation of orders, potential delays in product shipments, difficulties in obtaining inventory parts from suppliers, failure to satisfy customer acceptance requirements and the inability to recognize revenue under new accounting requirements, our backlog as of any point in time may not be representative of actual 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, such as occurred in the third quarter of 2001 where the Company's backlog declined to \$32.2 million at September 30, 2001, could have a material adverse effect on our business, financial condition and results of operations. In addition, backlog at September 30, 2001 may not be a reliable indicator of revenues in future periods due to customer requested changes to delivery schedules and order cancellations.

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

The semiconductor equipment industry is characterized by dramatic and sometimes volatile changes in demand for its products. Changes in product demand result from a number of factors including the semiconductor industry's ever changing and unpredictable capacity requirements and changes in IC design and packaging. Sudden changes in demand for semiconductor equipment have a significant impact on our operations. In response to a severe industry downturn in 1998, we reduced our total workforce by approximately 40%. During 1999, we increased our workforce by more than 50% as business conditions in the semiconductor equipment industry and our order backlog improved. In the first nine months of 2001, we reduced our workforce approximately 30% (approximately \$15 million in annual payroll related costs) as a result of a downturn in the semiconductor equipment industry. If the current industry downturn continues, further workforce reductions may be required. Such radical changes in workforce levels place enormous demands on our employees, operations and infrastructure since newly hired personnel rarely possess the expertise and level of experience of current employees. Additionally, these transitions divert management time and attention from other activities. We have in the past and may in the future experience difficulties, particularly in manufacturing, in training the large number of additions to our workforce. In addition, competition for the employment services of certain personnel, particularly those with technical skills, is intense. The volatility in headcount and business levels, combined with the cyclical nature of the semiconductor industry, may require that we

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
September 30, 2001

TRENDS, RISKS AND UNCERTAINTIES (cont.)

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 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. IC handlers used in DRAM applications account for a significant portion of the worldwide IC handler market.

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

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

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

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

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

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

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
September 30, 2001

TRENDS, RISKS AND UNCERTAINTIES (cont.)

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

During 2000, 63% of our total net sales were exported to foreign countries, including 71% of the sales in the semiconductor equipment segment. The majority of our export sales are made to destinations in Asia. Instability in global economic markets, particularly in Asia, may adversely impact the demand for capital equipment, including equipment of the type manufactured and marketed by Cohu. In addition, we face intense competition from a number 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.

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

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

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

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

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

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

In December 1999, the staff of the Securities and Exchange Commission issued SAB 101, *Revenue Recognition in Financial Statements*. Cohu adopted SAB 101 in the fourth quarter of 2000 and, as required, changed its method of revenue recognition in certain instances. As a result of this change, a cumulative effect adjustment was recorded in Cohu's statement of income for the quarter ended March 31, 2000. Further changes in revenue recognition practices resulting from initiatives by the FASB are possible. Such changes could result in additional adjustments to our results of operations that may be reflected in future periods.

COHU, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
September 30, 2001

Quantitative and qualitative disclosures about market risk.

Interest rate risk.

At September 30, 2001, our investment portfolio includes fixed-income securities with a fair value of approximately \$74.1 million. These securities are subject to interest rate risk and will decline in value if interest rates increase. Due to the relatively short duration of our investment portfolio, an immediate ten percent change (e.g. 6.00% to 6.60%) in interest rates would have no material impact on our financial condition or results of operations.

Foreign currency exchange risk.

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

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 2000 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 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

- | | | |
|--------|---|---|
| 3.1 | - | Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference to Exhibit 3.1(a) from the Cohu, Inc. Form 10-Q for the quarterly period ended June 30, 1999 |
| 3.1(a) | - | Certificate of Amendment of Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference from the Cohu, Inc. Form S-8 filed June 30, 2000, Exhibit 4.1(a) |
| 3.2 | - | Amended and Restated Bylaws of Cohu, Inc. incorporated herein by reference to Exhibit 3.2 from the Cohu, Inc. Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 1996 |
| 4.1 | - | Rights Agreement dated November 15, 1996, between Cohu, Inc. and Chase Mellon Shareholder Services, L.L.C., incorporated herein by reference to Exhibit 4.1 to the Cohu, Inc. Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 1996 |
| 10.1 | - | Asset Purchase Agreement between Delta Design, Inc. and Schlumberger Technologies, Inc. dated as of July 16, 2001 |
| 10.2 | - | Cohu, Inc. Deferred Compensation Plan |

(b) Reports on Form 8-K: The Company did not file any reports on Form 8-K during the quarter ended September 30, 2001.

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 29, 2001

/s/ James A. Donahue

James A. Donahue
President & Chief Executive Officer

Date: October 29, 2001

/s/ John H. Allen

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

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (the "AGREEMENT"), made and entered into as of July 16, 2001, is by and between Delta Design, Inc., a Delaware corporation ("BUYER"), which is a wholly-owned subsidiary of Cohu, Inc., a Delaware corporation ("COHU"), and Schlumberger Technologies, Inc., a Delaware corporation ("SELLER").

RECITALS

Seller desires to sell, and Buyer desires to purchase, substantially all of the Assets of Seller related to the Automated Systems Business (as such terms are defined below) for the consideration and on the terms set forth in this Agreement.

AGREEMENT

In consideration of the respective covenants and promises contained herein and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

For purposes of this Agreement, the following terms and variations thereof have the meanings specified or referred to in this Article I:

"ACCOUNTS RECEIVABLE" -- (a) all trade accounts receivable and other rights to payment from customers of the Automated Systems Business as of date of the Balance Sheet and arising thereafter and the full benefit of all security for such accounts or debts, (b) any claims, remedies and other rights arising out of the foregoing, and (c) any cash or cash equivalents received by Seller on such amounts prior to the date hereof.

"AFFILIATE" -- as defined in Rule 12(b)(2) promulgated under the Securities Exchange Act of 1934, as amended.

"AGREEMENT" -- as defined in the first paragraph of this Agreement.

"ASSETS" -- as defined in Section 2.1.

"ASSIGNMENT AND ASSUMPTION AGREEMENT" -- as defined in Section 2.6(a)(iii).

"ASSIGNMENT AND ASSUMPTION OF LEASE" -- as defined in Section 2.6(a)(iv).

"ASSIGNMENT OF COPYRIGHTS" -- as defined in Section 2.6(a)(vii).

"ASSIGNMENT OF MARKS" -- as defined in Section 2.6(a)(v).

"ASSIGNMENT OF PATENTS" -- as defined in Section 2.6(a)(vi).

"ASSUMED LIABILITIES" -- as defined in Section 2.4(a).

"AUTOMATED SYSTEMS BUSINESS" -- the business unit of Seller headquartered in Westerville, Ohio that designs, manufactures, and sells final package test handlers, burn-in board loaders and unloaders and IC thermal conditioners to the semiconductor industry.

"AUTOMATED SYSTEMS TECHNOLOGY" -- all (i) inventions and discoveries, works of authorship (including software, plans, designs and drawings), confidential and proprietary information and (ii) all intellectual property rights therein owned, used or licensed by Seller, in each case, principally for the benefit and use of the Automated Systems Business, as more particularly described in Section 2.1 below.

"BALANCE SHEET" -- as defined in Section 3.4.

"BEST EFFORTS" -- the efforts that a prudent Person desirous of achieving a result would use in similar circumstances to ensure that such result is achieved as expeditiously as possible; provided, however, that a Person required to use Best Efforts under this Agreement will not be required to take actions that would result in a materially adverse change in the benefits to such Person of this Agreement and the Transactions, dispose of or make any change to its business, or expend any material funds or incur any other material burden.

"BILL OF SALE" -- as defined in Section 2.6(a)(i).

"BREACH" -- any violation or breach of, any misrepresentation or inaccuracy in, any default under, or any failure to perform or comply with any representation, warranty, covenant, obligation, or other provision of any Contract, or any event which with the passing of time or the giving of notice, or both, would constitute such a violation, breach, misrepresentation, inaccuracy, default or failure.

"BULK SALES LAWS" -- as defined in Section 5.1.

"BUSINESS DAY" -- any day other than Saturday or Sunday or any other day on which banks in Los Angeles are permitted or required to be closed.

"BUYER" -- as defined in the first paragraph of this Agreement.

"BUYER INDEMNIFIED PERSONS" -- as defined in Section 6.2.

"BUYER'S CLOSING DOCUMENTS" -- as defined in Section 4.2(a).

"CLOSING" -- the consummation of the purchase and sale provided for in this Agreement.

"CLOSING DATE" -- the date of execution of this Agreement.

"CODE" -- the Internal Revenue Code of 1986, as amended, or any successor law, regulations issued by the IRS pursuant to the Code or any successor law.

"COHU" -- as defined in the first paragraph of this Agreement.

"CONSENT" -- any approval, consent, ratification, waiver, or other authorization.

"CONTRACT" -- any agreement, contract, lease, consensual obligation, promise, or undertaking (whether written or oral and whether express or implied), including without limitation, any Seller Contract.

"COPYRIGHTS" -- as defined in Section 2.1.

"DAMAGES" -- as defined in Section 6.2.

"EMPLOYEE BENEFIT PLAN" -- any plan, program or agreement which Seller has maintained, sponsored or obligated itself under with respect to employees' benefits or welfare, including without limitation pension or retirement plans, medical or dental plans, life or long-term disability insurance, bonus or incentive compensation, severance payments, stock option or equity participation plans.

"EMPLOYEES" -- as defined in Section 3.15(a).

"ENCUMBRANCE" -- any charge, claim, community property interest, condition, equitable interest, lien, option, pledge, security interest, mortgage, right-of-way, easement, encroachment, servitude, right of first option, right of first refusal or restriction of any kind, including any restriction on use, voting (in the case of any security), transfer, receipt of income, or exercise of any other attribute of ownership, except for (a) minor imperfections of title, if any, none of which are substantial in amount, materially detract from the value or impair the use of the property subject thereto, or impair the operations of the Automated Systems Business and which have arisen only in the Ordinary Course of Business; (b) statutory or inchoate liens of carriers, warehousemen, mechanics, materialmen and other similar liens arising by operation of law in the Ordinary Course of Business; and (c) liens for Taxes not yet due and payable.

"ENVIRONMENTAL LAW" -- any Legal Requirement designed to minimize, prevent, punish or remedy the consequences of actions that damage or threaten the environment or public health and safety in effect as of the Closing Date.

"EXCLUDED ASSETS" -- as defined in Section 2.2.

"FACILITIES" -- the facilities
located at:

8377 Green Meadows Drive North
Westerville, Ohio 43081

and

8157 Green Meadows Drive, Suites H&J
Lewis Center, Ohio 43035

"GAAP" -- generally accepted accounting principles for financial reporting in the United States, applied on a basis consistent with the basis on which the Balance Sheet, the June Balance Sheet and the other financial statements referred to in Section 3.4 were prepared.

"GOVERNING DOCUMENTS" -- with respect to any particular entity, the articles or certificate of incorporation and the bylaws (or comparable documents), as amended.

"GOVERNMENTAL AUTHORIZATION" -- any Consent, license, or permit issued, granted, given, or otherwise made available by or under the authority of any Governmental Body or pursuant to any Legal Requirement related to the Automated Systems Business, but specifically excluding any general business license.

"GOVERNMENTAL BODY" -- any:

- (a) domestic or foreign federal, state, local, or municipal government;
- (b) domestic or foreign governmental or quasi-governmental authority of any nature (including any agency, branch, department, board, commission, court, tribunal or other entity exercising governmental or quasi-governmental powers);
- (c) domestic or foreign body exercising any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power; or
- (d) official of any of the foregoing.

"HAZARDOUS MATERIAL" -- any substance, material or waste which is regulated by any Governmental Body, including any waste which is defined as a "hazardous waste," "hazardous material," "hazardous substance," "extremely hazardous waste," "restricted hazardous waste," "contaminant," "toxic waste" or "toxic substance" under any provision of Environmental Law, and including petroleum, petroleum products, asbestos, presumed asbestos-containing material or asbestos-containing material, urea formaldehyde and polychlorinated biphenyls.

"IMPROVEMENTS" -- all fixtures and improvements made by or on behalf of the tenant located on the Leased Parcels or included in the Assets, including those under construction.

"INITIAL EMPLOYMENT PERIOD" -- as defined in Section 5.2(a).

"INSURANCE POLICY" -- any insurance policy maintained by Seller or any of its Affiliates, other than any State Workers' Compensation Policy the premiums of which are paid directly by Seller or any Affiliate of Seller.

"INVENTORIES" -- all inventories of the Automated Systems Business reflected on the June Balance Sheet, wherever located, including all finished goods, work in process, software diskettes, owner manuals, office and all other materials and supplies to be used or consumed by Seller in the Automated Systems Business.

"IRS" -- the United States Internal Revenue Service or any successor agency, and, to the extent relevant, the United States Department of the Treasury.

"JUNE BALANCE SHEET" -- as defined in Section 3.4.

"KNOWLEDGE" -- Seller will be deemed to have "Knowledge" of a particular fact or other matter if any officer of Seller identified on Schedule 1-K hereto is actually aware of such fact or other matter or reasonably should be aware of such fact or other matter. Buyer will be deemed to have "Knowledge" of a particular fact or other matter if John Allen or James Donahue is actually aware of such fact or other matter or reasonably should be aware of such fact or other matter.

"LEASED PARCEL" -- as defined in Section 3.9(b).

"LEGAL REQUIREMENT" -- any applicable domestic or foreign federal, state, local, or municipal law, ordinance, code, regulation, statute, or treaty.

"LIABILITY" -- with respect to any Person, any liability or obligation of such Person of any kind, character or description, whether known or unknown, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, secured or unsecured, joint or several, due or to become due, vested or unvested, executory, determined, determinable or otherwise and whether or not the same is required to be accrued on the financial statements of such Person.

"LICENSES" -- consist of "Licenses-Out" in which Seller is the Licensor (if any, as listed in Schedule 2.1(f)) and/or "Licenses-In" in which Seller is the Licensee (if any, as listed in Schedule 2.1(f)).

"LICENSE ASSIGNMENT" -- as defined in Section 2.6(a)(ii).

"MATERIAL ADVERSE EFFECT" -- any effect which is materially adverse to the Automated Systems Business or the Assets when taken as a whole.

"MARKS" -- as defined in "Automated Systems Technology."

"MATERIAL CONSENTS" -- as defined in Section 2.7.

"NON-REAL PROPERTY ENCUMBRANCES" -- as defined in Section 3.10(a).

"OCCUPATIONAL SAFETY AND HEALTH LAW" -- any Legal Requirement designed to provide safe and healthful working conditions and to reduce occupational safety and health hazards, including the Occupational Safety and Health Act, 29 U.S.C. Section 651 et seq.

"OLD OPTIONS" -- as defined in Section 5.2(c).

"ORDER" -- any order, injunction, judgment, decree, ruling, assessment or arbitration award of any Governmental Body or arbitrator.

"ORDINARY COURSE OF BUSINESS" -- an action taken by a Person will be deemed to have been taken in the "Ordinary Course of Business" only if such action:

(a) is consistent in nature, scope and magnitude with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person; and

(b) does not require authorization by the board of directors or shareholders of such Person (or by any Person or group of Persons exercising similar authority) and does not require any other separate or special authorization other than by supervisory Employees customarily performing their assigned tasks.

"OWNED AUTOMATED SYSTEMS TECHNOLOGY" -- as defined in Section 3.7(d).

"PATENTS" -- as defined in Section 2.1.

"PERMITTED ENCUMBRANCE" -- any Permitted Non-Real Property Encumbrances and Permitted Real Property Encumbrances as identified by Buyer on Schedule 3.

"PERMITTED NON-REAL PROPERTY ENCUMBRANCES" -- as defined in Section 3.10(a).

"PERMITTED REAL PROPERTY ENCUMBRANCE" -- all Encumbrances on the fee interest in the Leased Parcels.

"PERSON" -- an individual, partnership, corporation, business trust, limited liability company or partnership, joint stock company, trust, unincorporated association, joint venture or other entity, or a Governmental Body.

"PREPAID SUMS"- the amount of payments received by Seller prior to the date hereof that relate to service obligations of the Automated Systems Business to be performed subsequent to the Date hereof and for which a related liability is not reflected on the associated Balance Sheet.

"PROCEEDING" -- any action, arbitration, audit, hearing, investigation, litigation, or suit (whether civil, criminal, administrative, judicial or investigative, whether formal or informal, whether public or private) commenced, brought, conducted, or heard by or before, or otherwise involving, any Governmental Body or arbitrator.

"PURCHASE PRICE" -- as defined in Section 2.3.

"REAL PROPERTY" -- the Leased Parcels and Improvements.

"RECORD" -- information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form.

"RELATED PERSON" -- is:

(a) any Person that, directly or indirectly, controls, is controlled by, or is under common control with a specified Person;

(b) any Person that holds a Material Interest in a specified Person;

(c) each Person that serves as a director, officer, partner, executor, or trustee of a specified Person (or in a similar capacity); and

(d) any Person in which a specified Person holds a Material Interest.

For purposes of this definition, (a) "control" (including "controlling," "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise; and (b) "MATERIAL INTEREST" means direct or indirect beneficial ownership (defined as the power to vote or to direct the voting of, or the power to dispose of, an equity security) of voting securities or other voting interests representing at least twenty-five percent (25%) of the outstanding voting power of a Person or equity securities or other equity interests representing at least twenty-five percent (25%) of the outstanding equity securities or equity interests in a Person.

"REPRESENTATIVE" -- with respect to a particular Person, any director, officer, employee, agent, consultant, advisor, or other representative of such Person, including legal counsel, accountants, and financial advisors.

"RETAINED LIABILITIES" -- as defined in Section 2.4(b).

"SCHEDULES" -- as defined in the preamble of Article III.

"SECURITIES ACT" -- the Securities Act of 1933, as amended.

"SELLER" -- as defined in the first paragraph of this Agreement.

"SELLER CONTRACT" -- any Contract principally pertaining to the Automated Systems Business or the Assets and excluding Contracts for the provision of general and administrative services to the Automated Systems Business by Seller or its Affiliates (a) under which Seller has or may acquire any rights or benefits, (b) under which Seller has or may become subject to any obligation or liability, or (c) by which Seller or any of the Assets is or may become bound.

"SELLER LEASE" -- the leases described on Schedule 3.9(b).

"SELLER'S CLOSING DOCUMENTS" -- as defined in Section 3.3(a).

"SUBSIDIARY" -- with respect to any Person (the "OWNER"), any corporation or other Person of which securities or other interests having the power to elect a majority of board of directors or similar governing body, or otherwise having the power to direct its business and policies (other than securities or other interests having such power only upon the happening of a contingency that has not occurred) are held by Owner, directly or indirectly.

"TANGIBLE PERSONAL PROPERTY" -- all machinery, equipment, tools, furniture, office equipment, computer hardware, supplies, materials, vehicles and other items of tangible personal

property (other than Inventories) of every kind owned or leased by Seller principally pertaining to the Automated Systems Business (wherever located and whether or not carried on Seller's books or the financial statements of the Automated Systems Business described in Section 3.4), together with any express or implied warranty by the manufacturers or sellers or lessors of any item or component part thereof, and all maintenance records and other documents relating thereto.

"TAX" -- any income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, property, environmental, windfall profit, customs, vehicle, airplane, boat, vessel or other title or registration, capital stock, franchise, employees' income withholding, foreign or domestic withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, value added, alternative, add-on minimum, and other tax, fee, assessment, levy tariff, charge or duty of any kind whatsoever, and any interest, penalties, additions or additional amounts thereon, imposed, assessed, collected by or under the authority of any Governmental Body or payable under any tax-sharing agreement or any other Contract.

"TRADE SECRETS" -- as defined in Section 2.1.

"TRANSACTIONS" -- all of the transactions contemplated by this Agreement.

"TRANSITION SERVICES AGREEMENT" -- as defined in Section 2.6(a)(ix).

"TRANSFER TAXES" -- all sales (including bulk sales), use, transfer, recording, ad valorem, privilege, documentary, gains, gross receipts, registration, conveyance, excise, license, stamp, duties or similar Tax and fees.

"TRANSFER TAX PAYOR" -- the party which has primary legal responsibility for the payment of any particular Transfer Tax.

"TRANSFERRED CONTRACT" -- all Seller Contracts being assumed by Buyer pursuant to the terms of this Agreement.

"UNISYS AGREEMENT" -- as defined in Section 3.7(n).

"WARN" -- as defined in Section 5.2(e).

ARTICLE II SALE AND TRANSFER OF ASSETS

Section 2.1 Assets to Be Sold. Upon the terms set forth in this Agreement, simultaneously with the execution hereof Seller is selling, conveying, assigning, transferring and delivering to Buyer and Buyer is purchasing and acquiring from Seller, free and clear of any Encumbrances other than Permitted Encumbrances, all of Seller's right, title and interest in and to the Automated Systems Business, and all of Seller's property and assets, real, personal or mixed, tangible and intangible, of every kind and description, wherever located, belonging to Seller and principally used in the conduct of the Automated Systems Business set forth below:

(a) all domestic and foreign patents, domestic and foreign patent applications (active or withdrawn), and inventions and discoveries that may be patentable owned, used or licensed by Seller principally for the benefit and use of the Automated Systems Business (collectively, the "PATENTS") including, without limitation, those listed on Schedule 2.1(a);

(b) all domestic and foreign copyrights owned, used or licensed by Seller principally for the benefit and use of the Automated Systems Business (collectively, the "COPYRIGHTS") including, without limitation, those listed on Schedule 2.1(b);

(c) all assumed fictional business and trade names, all registered and unregistered domestic and foreign trademarks, registered and unregistered domestic and foreign service marks, applications for domestic and foreign service marks, and applications for domestic and foreign trademarks, owned, used or licensed by Seller principally for the benefit and use of the Automated Systems Business (collectively, the "MARKS") including, without limitation, those listed on Schedule 2.1(c);

(d) all know-how, trade secrets, confidential or proprietary information, customer lists, software, technical information, data, process technology, plans, drawings, and blue prints, owned, used or licensed by Seller principally for the benefit and use of the Automated Systems Business or the Patents, Copyrights or Marks (collectively, "TRADE SECRETS");

(e) all of Seller's rights as Licensor under all Licenses-Out, and all of Seller's rights as Licensee under all Licenses-In, as listed on Schedule 2.1(e);

(f) all other intangible property of Seller principally used in the Automated Systems Business or needed for the utilization of the Automated Systems Technology, going concern value, goodwill, telephone and telecopy listings;

(g) all rights in, to and under all Seller Contracts, including, without limitation, those listed on Schedule 3.20(a), and any Contracts that assign to Seller rights to any inventions, improvements, discoveries or information, or confidentiality obligations of any Person, principally pertaining to the Automated Systems Business or the Automated Systems Technology (but excluding those Seller Contracts listed on Schedule 2.2(b)), and all outstanding offers or solicitations made by or to Seller to enter into any Contract primarily related to the Automated Systems Business or the Automated Systems Technology;

(h) all data and Records principally pertaining to the Automated Systems Business, including client and customer lists and Records, customer leads and other documentation, all raw data, all data on client use and experience with the Automated Systems Business, research and development reports and Records, production reports and Records, service and warranty Records, equipment logs, operating guides and manuals, financial and accounting Records, creative materials, advertising materials, promotional materials, reports, correspondence and other similar documents and Records, and copies of all personnel Records and copies of all other Records described in Section 2.2(c);

(i) all Accounts Receivable;

(j) all leasehold interests in the Real Property described in Schedule 3.9(b);

(k) all Tangible Personal Property;

(l) all Governmental Authorizations of Seller relating to the Automated Systems Business and all pending applications therefor or renewals thereof, in each case to the extent transferable to Buyer, including those listed on Schedule 3.17(b);

(m) all rights of Seller relating to deposits and prepaid expenses, claims for refunds and rights to offset in respect thereof principally related to the Automated Systems Business; and

(n) all rights of Seller to other properties and assets of every kind, character and description, tangible or intangible, of every kind and description, owned by Seller, reflected on the Balance Sheet and principally used or held for use in the Automated Systems Business as conducted or proposed by Seller to be conducted, except as set forth in Section 2.2.

All of the property and assets being transferred to Buyer hereunder, are herein referred to collectively as the "ASSETS." Notwithstanding the foregoing, the transfer of the Assets pursuant to this Agreement does not include the assumption of any Liability in respect thereof unless the Buyer has expressly assumed such Liability pursuant to Section 2.4(a).

Section 2.2 Excluded Assets. Notwithstanding anything to the contrary contained in Section 2.1 or elsewhere in this Agreement, the following items (collectively, the "EXCLUDED ASSETS") are not part of the sale and purchase effectuated hereunder, are excluded from the Assets, and shall remain the property of Seller after the date hereof:

(a) all cash and cash equivalents other than cash or cash equivalents received by Seller in payment of Accounts Receivable listed on the Balance Sheet and arising thereafter.

(b) the Seller Contracts listed in Schedule 2.2;

(c) all personnel Records and other Records relating to the Automated Systems Business that Seller is required by law to retain in its possession;

(d) all claims for refund of Taxes and other governmental charges of whatever nature relating to the Automated Systems Business for periods prior to the date hereof;

(e) all rights in connection with, and assets of, any Employee Benefit Plans;

(f) assets not located at the Facilities that are used to provide general and administrative services to the Automated Systems Business by Seller or its Affiliates.

(g) the Real Property of Seller or its Affiliates not listed on Schedule 3.9(b); and

(h) the other property and assets, if any, expressly designated in Schedule 2.2.

Section 2.3 Consideration. Simultaneously with the execution hereof, Buyer is paying Seller an amount equal to Fourteen Million Two Hundred Thousand Dollars (\$14,200,000) for the Assets by wire transfer of immediately available funds (the "PURCHASE PRICE").

Section 2.4 Liabilities.

(a) Assumed Liabilities. Simultaneously with the execution hereof, Buyer shall assume and agree to discharge (i) any Liability whatsoever arising after the Closing under any Transferred Contract (other than any Liability arising out of or relating to a Breach by Seller which occurred prior to the Closing), (ii) any warranty claim arising after the date hereof with respect to Seller's installed base, and any Liability arising after the date hereof in connection with the leasing or operation by Buyer of the Facilities (collectively, the "ASSUMED LIABILITIES"). All of the Assumed Liabilities remain the sole responsibility of and are to be assumed, paid, performed and discharged solely by Buyer.

(b) Retained Liabilities. "RETAINED LIABILITIES" shall mean every Liability of Seller other than the Assumed Liabilities. Retained Liabilities shall include, without limitation, all of the following Liabilities (whether relating to the Automated Systems Business or otherwise):

(i) any Liability arising out of the Automated Systems Business prior to the date hereof and not assumed by Buyer, including without limitation any products liability claims with respect thereto;

(ii) any Liability under any Contract assumed by Buyer pursuant to Section 2.4(a) that arises out of any Breach by Seller that occurred prior to the date hereof;

(iii) (A) any Taxes arising as a result of Seller's operation of the Automated Systems Business or ownership of the Assets prior to the date hereof, or (B) any Taxes that will be imposed on Seller as a result of the sale of the Assets pursuant to this Agreement;

(iv) any Liability under any Contract not assumed by Buyer under Section 2.4(a) including any Liability arising out of Seller's credit facilities, indebtedness or any security interest related thereto;

(v) any Liability under any Environmental Law or Occupational Health and Safety Law arising out of Seller's operation of the Automated Systems Business or Seller's leasing, ownership or operation of the Real Property prior to the date hereof;

(vi) any Liability, prior to the date hereof, under the Employee Benefit Plans or relating to the following: payroll, vacation, sick leave, workers' compensation, unemployment benefits, pension benefits, employee stock option or profit sharing plans, medical or health care plans or benefits, COBRA or any other employee plans or benefits of any kind for the employees of the Automated Systems Business or former employees or both;

(vii) any Liability under any employment, severance, retention or termination agreement, or any other arrangement, whether oral or written, between Seller and any Employee, except as expressly provided for in Section 5.2 hereof;

(viii) any Liability arising out of any Employee grievance, whether or not the affected Employees are hired by Buyer, relating to actions of Seller prior to the date hereof;

(ix) any Liability of Seller to any Related Person arising prior to the date hereof not assumed by Buyer under Section 2.4(a);

(x) any Liability to indemnify, reimburse or advance amounts to any officer, director, employee or agent of Seller arising prior to the date hereof;

(xi) any Liability arising out of any Proceeding pending as of the date hereof, whether or not set forth in any of the Schedules attached hereto, or any Proceeding arising out of any occurrence or event happening prior to the date hereof; and

(xii) any Liability arising out of or resulting from Seller's non-compliance prior to the date hereof with any Legal Requirement or Order of any Governmental Body related to the Automated Systems Business.

All of the Retained Liabilities remain the sole responsibility of and are to be retained, paid, performed and discharged solely by Seller.

Section 2.5 Allocation of Purchase Price. Seller and Buyer mutually agree to allocate the Purchase Price among the Assets acquired hereunder by Buyer in accordance with the provisions of Section 1060 of the Code. Seller shall provide Buyer with a draft of such allocation within sixty (60) days after the date hereof. Buyer shall notify Seller of any objection Buyer may have to such allocation within ten (10) days of its receipt of such allocation. Seller and Buyer shall resolve any disagreement with respect to such allocation in good faith consistent herewith; provided, however, that if Buyer and Seller shall not have agreed on the allocation by the 90th day following the date hereof, the allocation shall be made in accordance with the appraisals of an independent accounting firm of nationally recognized standing mutually selected by Seller and Buyer, the fees and expenses of which shall be paid equally by Buyer and Seller. Seller and Buyer each agree to report and file all tax returns (including amended tax returns and claims for refund) consistently with any such allocation, and shall take no position contrary thereto or inconsistent therewith (including, without limitation, in any audits or examinations by any taxing authority or any other proceedings). Seller and Buyer shall cooperate in the filing of any forms (including Form 8594) with respect to any such allocation, including any amendments to such forms, pursuant to this Agreement. Notwithstanding any other provisions of this Agreement, the foregoing agreement shall survive the date hereof without limitation. In the event that such allocation is disputed by any taxing authority, the party receiving notice of the dispute shall promptly notify the other party hereto and shall forward to such other party copies of all correspondence with such taxing authority in respect of such disputed allocation.

Section 2.6 Closing Obligations. Simultaneously with the execution hereof, Seller is delivering to Buyer, and Buyer is delivering to Seller, the following items:

(a) Seller's Closing Obligations. Simultaneously with the execution hereof, Seller is delivering to Buyer:

(i) a bill of sale for all of the Assets in the form of Exhibit A (the "BILL OF SALE"), executed by Seller;

(ii) consents to the assignment to Buyer of all licenses not expressly assignable by their terms;

(iii) an assignment of all Assets which are intangible personal property (other than Marks, Patents or Copyrights, which are covered below) in the form of Exhibit B, which assignment also contains Buyer's undertaking and assumption of the Assumed Liabilities (the "ASSIGNMENT AND ASSUMPTION AGREEMENT"), executed by Seller;

(iv) for each Seller Lease, an Assignment and Assumption of Lease in the form of Exhibit C (the "ASSIGNMENT AND ASSUMPTION OF LEASE"), written approval thereof by any over- landlord and/or sub-landlord, if required, or such other appropriate document or instrument of transfer, as the case may require, each in form and substance satisfactory to Buyer and its counsel and executed by Seller;

(v) an assignment of all of the Marks in the form of Exhibit D, executed by Seller (the "ASSIGNMENT OF MARKS");

(vi) an assignment of all of the Patents in the form of Exhibit E, executed by Seller (the "ASSIGNMENT OF PATENTS");

(vii) an assignment of all the Copyrights in the form of Exhibit F, executed by Seller (the "ASSIGNMENT OF COPYRIGHTS");

(viii) a certificate of the Secretary or Assistant Secretary of Seller certifying, as complete and accurate as of the date hereof, attached copies of the Governing Documents of Seller, certifying and attaching all requisite resolutions or actions of Seller's board of directors approving the execution and delivery of this Agreement and the consummation of the Transactions and certifying to the incumbency of the officers of Seller executing this Agreement and any other document relating to the Transactions;

(ix) the transition services agreement (the "TRANSITION SERVICES AGREEMENT") attached hereto as Exhibit G;

(x) a non-solicitation, non-competition and intellectual property license agreement by and between Buyer and Seller, executed by Seller, substantially in the form attached hereto as Exhibit H (the "NON-COMPETITION AGREEMENT");

(xi) an opinion of Skadden, Arps, Slate, Meagher & Flom LLP dated as of the date hereof in the form of Exhibit I;

(xii) certificates dated as of a date not earlier than the fifth Business Day prior to the date hereof as to the Good Standing of Seller, executed by the appropriate officials of the State of Delaware; and

(xiii) releases of all Encumbrances on the material Assets, other than Permitted Encumbrances, including releases of each mortgage of record and termination of each personal property security interest.

(b) Buyer's Closing Obligations. Simultaneously with the execution hereof, Buyer shall deliver to Seller:

(i) \$14,200,000, by wire transfer to an account(s) specified in writing by Seller;

(ii) the Assignment and Assumption Agreement, executed by Buyer;

(iii) the Assignment and Assumption of Leases, executed by Buyer;

(iv) the Transition Services Agreement, executed by Buyer;

(v) the Non-Competition Agreement, executed by Buyer; and

(vi) a certificate of the Secretary of Buyer certifying, as complete and accurate as of the Closing, attached copies of all requisite resolutions or actions of Buyer's board of directors approving the execution and delivery of this Agreement and the consummation of the Transactions and certifying to the incumbency of the officers of Buyer executing this Agreement and any other document relating to the Transactions.

Section 2.7 Consents. Following the date hereof, the parties shall use Best Efforts, and cooperate with each other, to obtain the Consents identified on Schedule 2.7 (the "MATERIAL CONSENTS") relating to each Transferred Contract or License not obtained as of the date hereof (the "RESTRICTED MATERIAL CONTRACTS") as quickly as practicable. Pending the obtaining of any such Material Consents, the parties shall cooperate with each other in any reasonable and lawful arrangements designed to provide to Buyer the benefits of use of the Restricted Material Contract for its term (or any right or benefit arising thereunder, including the enforcement for the benefit of Buyer of any and all rights of Seller against a third party thereunder). Once a Material Consent for the sale, assignment, assumption, transfer, conveyance and delivery of a Restricted Material Contract is obtained, Seller shall promptly assign, transfer, convey and deliver such Restricted Material Contract to Buyer, and Buyer shall assume the obligations under such Restricted Material Contract from and after the date of assignment to Buyer pursuant to a special-purpose assignment and assumption agreement in substantially the same form as the Assignment and Assumption Agreement.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF SELLER

Except as set forth in the Disclosure Schedule (the "SCHEDULES") prepared and signed by Seller and delivered to Buyer simultaneously with the execution hereof, Seller represents and warrants to Buyer that all of the statements contained in this Article III are true as of the date of this Agreement (or, if made as of a specified date, as of such date). Disclosure in any section of the Schedules shall be deemed to be adequate response and disclosure of such facts or circumstances with respect to all representations and warranties by Seller to the extent the relation of such disclosure to such representations and warranties is reasonably apparent.

Section 3.1 Organization and Good Standing. Seller is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware, with full corporate power and authority to conduct the Automated Systems Business and utilize the Automated Systems Technology as it is now being conducted and utilized, to own or use the properties and assets that it purports to own or use in connection with the Automated Systems Business, and to perform all its obligations under the Seller Contracts.

Section 3.2 Subsidiaries. There is no Subsidiary of Seller, whether active or inactive, involved directly or indirectly in operation of the Automated Systems Business or utilization of the Automated Systems Technology.

Section 3.3 Enforceability, Authority, No Conflict.

(a) Assuming due and valid authorization, execution and delivery thereof by Buyer, this Agreement constitutes the legal, valid, and binding obligation of Seller, enforceable against it in accordance with its terms, (a) subject to laws of general application relating to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws of general application affecting enforcement of creditors' rights generally, and (b) except that the availability of the remedy of specific performance or injunctive or other forms of equitable relief may be subject to equitable defenses and would be subject to the discretion of the court before which any proceeding thereof may be brought. Upon the execution and delivery by Seller of the Bill of Sale, the Assignment and Assumption Agreement, the Assignment and Assumption of Leases, the Assignment of Marks, the Assignment of Patents, the Assignment of Copyrights, the Transition Services Agreement, and the Non-Competition Agreement (collectively, the "SELLER'S CLOSING DOCUMENTS"), and assuming due and valid authorization, execution and delivery thereof by Buyer, each of Seller's Closing Documents will constitute the legal, valid, and binding obligation of Seller, enforceable against it in accordance with its terms, (a) subject to laws of general application relating to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws of general application affecting enforcement of creditors' rights generally, and (b) except that the availability of the remedy of specific performance or injunctive or other forms of equitable relief may be subject to equitable defenses and would be subject to the discretion of the court before which any proceeding thereof may be brought. Seller has the power and authority to execute and deliver this Agreement and the Seller's Closing Documents and to perform its obligations under this Agreement and the

Seller's Closing Documents, and such action has been duly authorized by all necessary action by Seller's shareholders and board of directors.

(b) Neither the execution and delivery of this Agreement by Seller nor the consummation or performance of any of the Transactions by Seller will, directly or indirectly (with or without notice or lapse of time):

(i) Breach (A) any material provision of any of the Governing Documents of Seller, or (B) any resolution adopted by the board of directors or the shareholders of Seller which is presently in force;

(ii) Breach or give any Governmental Body or other Person the right to challenge any of the Transactions or to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which Seller, or any of the Assets, may be subject;

(iii) contravene, conflict with, or result in a violation or breach of any of the material terms or requirements of, or give any Governmental Body the right to revoke, withdraw, suspend, cancel, terminate, or modify, any Governmental Authorization that is held by Seller and that relates to the Assets or to the Automated Systems Business;

(iv) Breach any material provision of, or give any Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or payment under, or to cancel, terminate, or modify, any Transferred Contract in any material respect; or

(v) result in the imposition or creation of any Encumbrance upon or with respect to any of the Assets.

(c) Except as set forth in Schedule 3.3(c), Seller is not required to give any notice to or obtain any Consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Transactions.

Section 3.4 Financial Statements. Seller has delivered to Buyer: (a) an unaudited balance sheet of Seller with respect to the Automated Systems Business as of December 31, 2000, and the related unaudited statements of income for the fiscal year then ended, (b) an unaudited balance sheet of Seller with respect to the Automated Systems Business as of May 26, 2001 (the "BALANCE SHEET") and the related unaudited statements of income for the five months then ended, and (c) an unaudited balance sheet of Seller with respect to the Automated Systems Business as of June 24, 2001 (the "JUNE BALANCE SHEET") and the related unaudited statements of income for the six months then ended, including in each case the notes thereto, all of which financial statements referred to in this sentence shall be certified by the chief financial officer responsible for the Automated Systems Business. The financial statements referred to in this Section 3.4, fairly present the financial condition and the results of operations of the Automated Systems Business as at the respective dates of and for the periods referred to in such financial statements, all in accordance with GAAP (subject to normally recurring year-end audit adjustments which are not material either individually or in the aggregate). The financial

statements referred to in this Section 3.4, reflect the consistent application of such accounting principles throughout the periods involved, except as disclosed in the notes to such financial statements (subject to normally recurring year-end audit adjustments which are not material either individually or in the aggregate). The financial statements referred to in this Section 3.4, have been prepared from and are in accordance with the books and Records of Seller, which have been maintained in accordance with Section 3.5. There are no letters from Seller's auditors to Seller's Board of Directors or the audit committee thereof that relate to the Automated Systems Business.

Section 3.5 Books and Records. The books of account and other financial Records of Seller relating to the Automated Systems Business, all of which have been made available to Buyer, are complete and correct and represent actual, bona fide transactions and have been maintained in accordance with sound business practices and the requirements of Section 13(b)(2) of the Securities Exchange Act of 1934, including the maintenance of an adequate system of internal controls.

Section 3.6 Sufficiency of Assets. Except for the Excluded Assets, the Assets constitute all of the assets, tangible and intangible, of any nature whatsoever, principally used to operate the Automated Systems Business or necessary to utilize the Automated Systems Technology in the manner presently operated and proposed by Seller to be operated. Except for the Excluded Assets, there are no assets or properties principally used in the operation of the Automated Systems Business or necessary to utilize the Automated Systems Technology that will not have been transferred to Buyer hereunder at the Closing.

Section 3.7 Intellectual Property.

(a) Seller has the right to use all the Automated Systems Technology without payment of royalties, fees or services to any Person. Seller has not entered into any License, whether on an exclusive basis or otherwise, that would interfere with Seller's rights in the Automated Systems Technology. Seller's rights in and to the Automated Systems Technology are free and clear of all Encumbrances other than Permitted Encumbrances.

(b) Upon consummation of the Transactions, all copies of source code to the software included within the Owned Automated Systems Technology will have been conveyed to Buyer.

(c) To Seller's Knowledge, it has the right to use the Automated Systems Technology and other intellectual property rights that are presently used (i) for the operation of the Automated Systems Business, and (ii) necessary for Seller to perform its obligations hereunder.

(d) Seller is the sole owner of Automated Systems Technology described in Section 2.1, except as set forth on Schedule 3.7(d) (the "OWNED AUTOMATED SYSTEMS TECHNOLOGY"). Seller has not used any trade secret or other confidential or proprietary information owned by any Person in developing or producing the Owned Automated Systems

Technology, except where such use is expressly authorized in a License-In assigned to Buyer under Section 2.1 or was independently developed by Seller.

(e) To the Knowledge of Seller, the Automated Systems Technology performs in all material respects in accordance with the existing documentation and other written material used in connection with marketing or operating the Automated Systems Technology (if any), and is free of any material defects that would affect its functionality or its operations as presently utilized in the Automated Systems Business.

(f) To the Knowledge of Seller, it has kept secret and has not disclosed the source code for the software included in the Owned Automated Systems Technology to any Person other than certain employees or consultants of Seller who are (and were, at the time of disclosure) subject to the terms of a binding confidentiality and non-disclosure agreement with respect thereto. Seller has taken all customary measures to protect the confidential and proprietary nature of its proprietary rights and information included in the Owned Automated Systems Technology, including without limitation the use of confidentiality and non-disclosure agreements with all of the Seller's employees and consultants having access to computer programs, materials, object and source codes, other written materials, know-how and processes related to the Owned Automated Systems Technology.

(g) Schedule 3.7(g) lists all of the Licenses-Out presently in effect, pursuant to which Seller has licensed the Automated Systems Technology to customers for their internal use. Seller has not granted to any Person any licenses to the Automated Systems Technology for the purpose of further distribution or resale to others.

(h) To the Knowledge of Seller, no Person other than Seller holds, or has access to, the source code for any software included in the Automated Systems Technology.

(i) Except for off-the-shelf software licenses, there are no Contracts in effect between Seller and any vendor or producer of software that is used in conjunction with Automated Systems Technology.

(j) Schedule 2.1(a) contains a complete and accurate list and summary description of all Patents. All of the issued Patents are currently in compliance with formal Legal Requirements (including payment of filing, examination, and maintenance fees and proofs of working or use), are, to the Knowledge of Seller, valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety (90) days after the Closing Date. No Patent has been or is now involved in any interference, reissue, reexamination, or opposition Proceeding. There is no potentially interfering patent or, to Seller's Knowledge, patent application of any third party. To the Knowledge of Seller, no Patent is infringed or has been challenged or threatened in any way. Seller has received no notice of a claim that the Automated Systems Technology infringes, and to Seller's Knowledge, there are no facts that would form the basis of a claim that the Automated Systems Technology infringes any valid patent, copyright, trademark, trade secret or other proprietary right of any other Person.

(k) Schedule 2.1(c) contains a complete and accurate list and summary description of all Marks. All Marks that have been registered with the United States Patent and Trademark Office and the patent and trademark offices of any other jurisdiction in which the Automated Systems Business is operated and are currently in compliance with all formal Legal Requirements (including the timely post-registration filing of affidavits of use and incontestability and renewal applications), are, to Seller's Knowledge, valid and enforceable, and are not subject to any maintenance fees or taxes or actions falling due within ninety (90) days after the Closing Date. No Mark has been and is now involved in any opposition, invalidation, or cancellation Proceeding and, to Seller's Knowledge, no such action is threatened with respect to any of the Marks. To Seller's Knowledge, no Mark is infringed or has been challenged or threatened in any way. Seller has received no notice of a claim that a Mark infringes, and to Seller's Knowledge, there are no facts would form the basis of a claim that a Mark used by Seller infringes any trade name, trademark, or service mark of any other Person. All materials which market or promote the Automated Systems Business contain a Mark bearing the proper domestic or foreign federal registration notice where permitted by law.

(l) Schedule 2.1(b) contains a complete and accurate list and summary description of all Copyrights. None of Seller's Copyrights has been or is now involved in any infringement or other Proceeding and, to Seller's Knowledge, no such action is threatened with respect to any of the Copyrights. To Seller's Knowledge, there are no potentially interfering copyrights of any other Person and, to Seller's Knowledge no Copyright is infringed or has been challenged or threatened in any way. Seller has received no notice of a claim that a Copyright infringes, and to Seller's Knowledge, there are no facts would form the basis of a claim that a Copyright infringes any copyright or other rights of any other Person. All products and materials protected by copyright bear the proper domestic or foreign federal notice where permitted by law.

(m) Seller has taken all commercially reasonable precautions to protect the secrecy, confidentiality and value of all presently existing Trade Secrets (including the enforcement by Seller of a policy requiring each employee or contractor to execute proprietary information and confidentiality agreements substantially in Seller's standard form and all current and former employees and contractors of Seller providing services in connection with the Automated Systems Business have executed such an agreement). To the Knowledge of Seller, it has good title to all owned Trade Secrets and has all necessary rights to use all licensed Trade Secrets (all of which licensed Trade Secrets are identified on Schedule 3.7(d)). To the Knowledge of Seller, the Trade Secrets are not part of the public knowledge or literature, and, to Seller's Knowledge, have not been used, divulged, or appropriated either for the benefit of any Person (other than Seller) or to the detriment of Seller. Seller has received no notice of a claim that a Trade Secret infringes, and to Seller's Knowledge, there are no facts would form the basis of a claim that a Trade Secret infringes any intellectual property right of any other Person.

(n) All rights, interests and benefits of Seller under The Agreement to Develop Constant Temperature Device Under Test System with Unisys Corporation dated January 7, 1997, as amended on January 14, 1999 and January 7, 2000 (the "UNISYS AGREEMENT"), are hereby fully assigned to Buyer without any limitation of such rights, interests or benefits and without requiring the consent of Unisys Corporation. All payments required by the Unisys Agreement have been made in accordance with its terms.

Section 3.8 Customers.

(a) No customer of the Automated Systems Business has made any written or, to Seller's Knowledge, oral complaint regarding the Automated Systems Business which complaint would cause a Material Adverse Effect. No such customer has obtained from, or to the Knowledge of Seller, asserted against, Seller any credit or offset with respect to any payment due and owing to Seller in connection with the Automated Systems Business.

(b) Schedule 3.8(b) sets forth a complete list of the existing customers of the Automated Systems Business.

(c) Except as set forth in Schedule 3.8(c), Seller has not, directly or indirectly, granted to any Person anywhere in the world the right to exploit the Automated Systems Technology.

Section 3.9 Real Property, Condition of Facilities.

(a) Seller does not own any real property used in connection with the Automated Systems Business.

(b) Schedule 3.9(b) contains a description of each Seller Lease, including the applicable landlord and expiration date, and the street address and approximate rentable square footage with respect to all Facilities in which Seller has a leasehold interest (each such parcel, a "LEASED PARCEL"). Seller warrants to Buyer that Seller's interest in each Leased Parcel is free and clear of all Real Property Encumbrances other than those identified on Schedule 3 as acceptable to Buyer ("PERMITTED REAL PROPERTY ENCUMBRANCES"). With respect to each Leased Parcel:

(i) each Seller Lease is legal, valid, binding, enforceable, and in full force and effect and will continue to be so on identical terms following the consummation of the Transactions;

(ii) there are no disputes, oral agreements or forbearance programs in effect as to the Seller Lease;

(iii) such Leased Parcel is suitable for conducting the operations that Seller has conducted thereon in connection with the Automated Systems Business;

(iv) Seller has not assigned, transferred, conveyed, mortgaged, deeded in trust, or encumbered any interest in the Seller Lease; and

(v) there are no pending or, to the Knowledge of Seller, threatened, condemnation or other Proceedings relating to the Real Property, or to the Knowledge of Seller other matters affecting the current use, occupancy, or value thereof which would have a Material Adverse Effect.

(c) To Seller's Knowledge, all Improvements are in material compliance with all applicable Legal Requirements, including those pertaining to zoning, building and the disabled, are in good repair and in good condition, ordinary wear and tear excepted.

Section 3.10 Personal Property.

(a) Seller owns good and transferable title to all of the Assets other than the Real Property free and clear of any Encumbrances ("NON-REAL PROPERTY ENCUMBRANCES"), other than those identified on Schedule 3 as acceptable to Buyer ("PERMITTED NON-REAL PROPERTY ENCUMBRANCES") or as would not be expected to have a Material Adverse Effect.

(b) Each item of Tangible Personal Property is in good repair and good operating condition, ordinary wear and tear excepted, is suitable for immediate use in the Ordinary Course of Business, and to Seller's Knowledge is free from latent and patent defects. No item of Tangible Personal Property is in need of repair or replacement other than as part of routine maintenance in the Ordinary Course of Business. All Tangible Personal Property is in the possession of Seller.

Section 3.11 Inventories. The inventories of Seller as of the date hereof constituting part of the Assets and set forth on the June Balance Sheet are of standard quality and are usable and salable in the Ordinary Course of Business consistent with past practice, except for items that have been written off or written down to fair market value and for which adequate reserves have been provided therein.

Section 3.12 No Undisclosed Liabilities. Seller has no Liability relating to the Automated Systems Business or the Assets except for Liabilities reflected or reserved against in the Balance Sheet and current liabilities incurred in the Ordinary Course of Business of Seller since the date of the Balance Sheet.

Section 3.13 Taxes. There are no liens for Taxes (other than for current Taxes not yet due and payable) on the Assets. Seller is not a person other than a United States person within the meaning of the Code.

Section 3.14 No Material Adverse Change. Since the date of the Balance Sheet, there has not been any material adverse change with respect to the Automated Systems Business or the Assets and no event has occurred or circumstances exist that would be reasonably likely to result in a material adverse change; provided, however, that any material adverse change resulting from or relating to general economic or industry conditions shall not constitute a material adverse change for purposes of this Agreement unless such general economic or industry conditions have a disproportionately greater effect on the Automated Systems Business than on similar businesses.

Section 3.15 Employees.

(a) Schedule 3.15(a) sets forth a complete and accurate list, giving name, job title, current compensation paid or payable, vacation accrued, and services credited for purposes of vesting and eligibility to participate under any Employee Benefit Plan (in each case, to the

extent applicable), for each employee of Seller performing all or substantially all of his services in connection with the Automated Systems Business (the "EMPLOYEES").

(b) Seller has not experienced any organized slowdown, work interruption, strike or work stoppage by its Employees, and, to the Knowledge of Seller, there is no strike, labor dispute or union organization activities pending or threatened affecting it in connection with the Automated Systems Business. None of the Employees belongs to any union or collective bargaining unit.

(c) Seller, with respect to the Employees and the Automated Systems Business, is in compliance with all applicable Legal Requirements regarding employment and employment practices, terms and conditions of employment, wages and hours, and Occupational Safety and Health Laws, including laws concerning unfair labor practices within the meaning of Section 8 of the National Labor Relations Act and the employment of non-residents under the Immigration Reform and Control Act of 1986.

(d) To the Knowledge of Seller, no Employee intends to terminate his employment with Seller, nor does Seller have a present intention to terminate the employment of any Employee. Subject to general principles related to wrongful termination of employees, the employment of each Employee of Seller is terminable at the will of Seller. No Employee is a party to, or is otherwise bound by, any employment, confidentiality or non-competition Contract with Seller or any other Person, or any other Contract that in any way adversely affected, affects, or will affect the ability of Seller or Buyer to conduct the Automated Systems Business as heretofore carried on by Seller.

(e) No Employee will be entitled to receive any severance pay, howsoever characterized, from Seller.

Section 3.16 Employee Benefits. To its Knowledge, Seller has no Liability with respect to the Employees under any Employee Benefit Plan other than normal salary or wage accruals and paid vacation, sick leave and holiday accruals in accordance with Seller's past practice and policy. To its Knowledge, Seller has performed all obligations required to be performed under, and has complied with all Legal Requirements in connection with, all such Employee Benefit Plans and is not in arrears under any of the terms thereof.

Section 3.17 Compliance With Legal Requirements; Governmental Authorizations.

(a) Except as set forth in Schedule 3.17(a):

(i) Seller is, and at all times has been, in full compliance with each Legal Requirement that is or was applicable to the operation of the Automated Systems Business or the ownership or use of any of the Assets, except as would not reasonably be expected to have a Material Adverse Effect.

(ii) Seller has not received within the past year any written notice from any Governmental Body or any other Person regarding (A) any actual, alleged, possible, or potential violation of, or failure to comply with, any Legal Requirement in connection with the

Automated Systems Business or any of the Assets or (B) any actual, alleged, possible, or potential obligation on the part of the Seller to undertake, or to bear all or any portion of the cost of, any remedial action of any nature relating to the Automated Systems Business or any of the Assets.

(b) Schedule 3.17(b) contains a complete and accurate list of each material Governmental Authorization that is held by the Seller which relates to the Automated Systems Business or any of the Assets. Each Governmental Authorization listed or required to be listed in Schedule 3.17(b) is valid and in full force and effect. Except as set forth in Schedule 3.17(b):

(i) Seller is, and at all times, has been, in full compliance with each material Governmental Authorization necessary to permit the Seller to lawfully conduct and operate the Automated Systems Business and to own and use the Assets in the manner in which it currently owns and uses the Assets, except as would not reasonably be expected to have a Material Adverse Effect.

(ii) no event has occurred or circumstance exists that will (with or without notice or lapse of time) (A) constitute or result directly or indirectly in a violation of or a failure to comply with any material term or requirement of any Governmental Authorization listed or required to be listed on Schedule 3.17(b), or (B) result directly or indirectly in the revocation, withdrawal, suspension, cancellation, or termination of, or any modification to, any such Governmental Authorization.

(iii) Seller has not received within the past year any notice or communication from any Governmental Body or any other Person regarding (A) any actual, alleged, possible, or potential violation of or failure to comply with any term or requirement of any Governmental Authorization, or (B) any actual, proposed, possible, or potential revocation, withdrawal, suspension, cancellation, termination of, or modification to any Governmental Authorization listed or required to be listed on Schedule 3.17(b).

(iv) all applications required to have been filed for the renewal of the Governmental Authorizations listed or required to be listed on Schedule 3.17(b) have been duly filed on a timely basis with the appropriate Governmental Bodies, and all other filings required to have been made with respect to such Governmental Authorizations have been duly made on a timely basis with the appropriate Governmental Bodies.

Section 3.18 Legal Proceedings; Orders.

(a) There are no Proceedings pending (i) by or against the Seller that may have a Material Adverse Effect on the Automated Systems Business or the Assets; or (ii) that challenge, or that may have the effect of preventing, delaying, making illegal or otherwise interfering with, any of the Transactions. To the Knowledge of Seller, no such Proceeding has been threatened, and no event has occurred or circumstance exists that may give rise to or serve as a basis for the commencement of any such Proceeding.

(b) There are no Orders outstanding (i) against the Seller that may have a Material Adverse Effect on the Automated Systems Business or the Assets; or (ii) that challenge, or that may have the effect of preventing, delaying, making illegal or otherwise interfering with, any of the Transactions. To the Knowledge of Seller, no such Order has been threatened, and no event has occurred or circumstance exists that may give rise to or serve as a basis for the commencement of any such Order. Seller is, and at all times within the past year has been, in compliance with all of the terms and requirements of each Order relating to the Automated Systems Business or the Assets.

Section 3.19 Absence of Certain Changes and Events. Since the date of the June Balance Sheet, Seller has conducted the Automated Systems Business only in the Ordinary Course of Business and there has not been any:

(a) payment or increase (other than in the Ordinary Course of Business) by Seller of any bonuses, salaries, or other compensation to any employee in connection with the Automated Systems Business or entry (other than in the Ordinary Course of Business) into any employment, severance, or similar Contract in connection with the Automated Systems Business;

(b) adoption of, amendment to, or increase in the payments to or benefits under, any Employee Benefit Plan with respect to the Employees except as contemplated by existing benefit policies;

(c) damage to or destruction or loss of any Asset, whether or not covered by insurance except as would not reasonably be expected to have a Material Adverse Effect;

(d) sale, lease or other disposition of any Asset other than in the Ordinary Course of Business;

(e) entry into, termination of, or receipt of notice of termination in connection with the Automated Systems Business of any license or Contract involving a total remaining commitment by Seller of at least \$50,000;

(f) compromise or settlement of any Proceeding relating to the Automated Systems Business or the Assets;

(g) cancellation or waiver of any claims or rights with an aggregate value to Seller in excess of \$25,000 in connection with the Automated Systems Business;

(h) indication by any customer or supplier of an intention to discontinue or change the terms of its relationship with Seller in connection with the Automated Systems Business except as would not reasonably be expected to have a Material Adverse Effect;

(i) material change in the accounting methods used by Seller; or

(j) agreement, whether oral or written, by Seller to do any of the foregoing.

Section 3.20 Contracts; No Defaults.

(a) Schedule 3.20(a) contains an accurate and complete list, and Seller has delivered to Buyer, accurate and complete copies of:

(i) each Transferred Contract that involves performances of services by Seller of an amount or value in excess of \$50,000;

(ii) each Transferred Contract that involves furnishing of services, licensing of software or delivery of goods or materials to Seller of an amount or value in excess of \$50,000;

(iii) each Transferred Contract that was not entered into in the Ordinary Course of Business and that involves expenditures or receipts of Seller in excess of \$50,000;

(iv) each Transferred Contract affecting the ownership of, leasing of, title to, use of, or any leasehold or other interest in any real or personal property (except personal property leases and installment and conditional sales agreements) having a value per item or aggregate payments of less than \$50,000;

(v) each Transferred Contract with any labor union or other employee representative of a group of employees relating to wages, hours and conditions of employment;

(vi) each Transferred Contract (however named) involving a share of profits, losses, costs or liabilities by Seller with any other Person;

(vii) each Transferred Contract providing for payments to or by any Person based on sales, purchases, or profits, other than direct payment for goods;

(viii) each power of attorney granted by Seller that is currently effective and outstanding and binding on Buyer after the Closing, except powers of attorney granted in respect of patents, copies of which have been previously provided to Buyer by Seller;

(ix) each Transferred Contract entered into other than in the Ordinary Course of Business that contains or provides for an express undertaking by Seller to be responsible for consequential damages;

(x) each Transferred Contract for capital expenditures in excess of \$25,000 in the aggregate;

(xi) each Transferred Contract containing covenants that in any way purport to restrict Seller's business activity with respect to the Automated Services Business

(xii) each written warranty, guaranty or other similar undertaking with respect to contractual performance extended by Seller with respect to the Automated Systems Business other than in the Ordinary Course of Business; and

(xiii) each amendment, supplement, and modification (whether oral or written) in respect of any of the foregoing.

(b) Except as set forth on Schedule 3.20(b):

(i) each Transferred Contract is valid and binding and in full force and effect;

(ii) neither Seller nor, to Seller's Knowledge, any other party to any Seller Contract is in default under any Transferred Contract except as would not be expected to have a Material Adverse Effect;

(iii) no event has occurred which with the giving of notice or passage of time or both would constitute a default by Seller under any Transferred Contract except as would not be expected to have a Material Adverse Effect; and

(iv) neither Seller, nor to Seller's Knowledge, any Person other than Seller has failed to comply with any obligation under any Transferred Contract which would materially adversely affect, either individually or together with other defaults, the financial condition of the Automated Systems Business or the Assets.

(c) There are no renegotiations of, attempts to renegotiate, or outstanding rights to renegotiate any material amounts paid or payable to the Seller under current or completed Transferred Contracts with any Person and, to the Knowledge of Seller, no such Person has made written demand for such renegotiation.

Section 3.21 Environmental Matters. Except as would not be expected to have a Material Adverse Effect,

(a) Seller is in material compliance with, and is not in violation of or liable under, any Environmental Law in connection with the Automated Systems Business.

(b) There are no pending or, to the Knowledge of Seller, threatened, claims, Encumbrances, or other restrictions of any nature alleging any violation of any Environmental Law, or claiming any obligation to undertake or bear the cost of any investigation or remediation of any release of Hazardous Materials under Environmental Laws with respect to or affecting any of the Facilities, the Assets or any other properties and assets (whether real, personal, or mixed) in which Seller has or had an interest in connection with the Automated Systems Business.

(c) Seller has not received any actual or threatened written order, notice, or other communication from (i) any Governmental Body or private citizen acting in the public interest, or (ii) the current or prior owner or operator of any Facilities, of any actual or potential violation or failure to comply with any Environmental Law in connection with the Automated Systems Business, or of any claimed obligation to undertake or bear the cost of any investigation or remediation of any release of Hazardous Materials under any Environmental Laws with respect to any of the Facilities, or with respect to any property or Facility at or to which

Hazardous Materials have been transported, treated, stored, handled, transferred, disposed, recycled, or received in connection with the Automated Systems Business.

(d) To the Knowledge of Seller, there are no Hazardous Materials present above naturally occurring background levels on or in the environment at the Facilities including any Hazardous Materials contained in barrels, above ground or underground storage tanks, landfills, land deposits, dumps, equipment (whether movable or fixed) or other containers, either temporary or permanent, and deposited or located in land, water, sumps, or any other part of the Facilities or such adjoining property, or incorporated into any structure therein or thereon except as used in compliance with guidelines and permits.

(e) Seller has delivered or made available to Buyer true and complete copies and results of any Phase I and Phase II reports, compliance audits, tests, or monitoring results for Hazardous Materials, possessed by Seller pertaining to Hazardous Materials or the disposal thereof in, on, or under the Facilities, or concerning compliance by Seller with Environmental Laws.

Section 3.22 Certain Payments. Neither the Seller nor any director, officer, agent, or employee of the Seller, or to the Knowledge of Seller, any other Person associated with or acting for or on behalf of the Seller in connection with the Automated Systems Business, has directly or indirectly in violation of any Legal Requirement (a) made any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment to any Person, regardless of form, whether in money, property, or services (i) to obtain favorable treatment in securing business for the Automated Systems Business, (ii) to pay for favorable treatment for business secured for the Automated Systems Business, (iii) to obtain special concessions or for special concessions already obtained, for or in respect of the Automated Systems Business, or (b) established or maintained any fund or asset that has not been recorded in the books and Records of the Automated Systems Business.

Section 3.23 Relationships with Related Persons. Except as disclosed in Schedule 3.23, no Related Person of Seller has, or has had, any interest in any property (whether real, personal, or mixed and whether tangible or intangible), used in or pertaining to the Automated Systems Business. Neither Seller, nor any Related Person of Seller, owns, or has owned, of record or as a beneficial owner, a material equity interest (greater than 25%) or any other financial or profit interest in any Person that has (a) had business dealings or a material financial interest in any transaction with Seller in connection with the Automated Systems Business other than business dealings or transactions disclosed in Schedule 3.23, each of which has been conducted in the Ordinary Course of Business with Seller at substantially prevailing market prices and on substantially prevailing market terms, or (b) engaged in competition with Seller with respect to any line of the products or services of Seller in the Automated Systems Business in any market presently served by Seller. No Related Person of Seller is a party to any Contract with, or has any claim or right against, Seller in connection with the Automated Systems Business.

Section 3.24 Brokers or Finders. Neither Seller nor any of its officers, directors, employees or agents have incurred any Liability for brokerage or finders' fees or agents'

commissions or other similar payment in connection with the sale of the Automated Systems Business or the Assets or the Transactions.

Section 3.25 Disclosure. No representation or warranty or other statement made by Seller in this Agreement or in connection with the Transactions, omits to state a material fact necessary to make any of them, in light of the circumstances in which it was made, not misleading.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as follows:

Section 4.1 Organization and Good Standing. Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware, with full corporate power and authority to conduct its business as it is now being conducted.

Section 4.2 Authority, No Conflict.

(a) Assuming due and valid authorization, execution, and delivery thereof, this Agreement constitutes the legal, valid, and binding obligation of Buyer, enforceable against Buyer in accordance with its terms, (a) subject to laws of general application relating to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws of general application affecting enforcement of creditors' rights generally, and (b) except that the availability of the remedy of specific performance or injunctive or other forms of equitable relief may be subject to equitable defenses and would be subject to the discretion of the court before which any proceeding thereof may be brought. Upon the execution and delivery by Buyer of the Assignment and Assumption Agreement, the Assignment and Assumption of Leases, the Transition Services Agreement, and the Non-Competition Agreement (collectively, the "BUYER'S CLOSING DOCUMENTS"), and assuming due and valid authorization, execution, and delivery thereof, each of the Buyer's Closing Documents will constitute the legal, valid, and binding obligation of Buyer, enforceable against Buyer in accordance with its respective terms, (a) subject to laws of general application relating to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws of general application affecting enforcement of creditors' rights generally, and (b) except that the availability of the remedy of specific performance or injunctive or other forms of equitable relief may be subject to equitable defenses and would be subject to the discretion of the court before which any proceeding thereof may be brought. Buyer has the power, and authority to execute and deliver this Agreement and the Buyer's Closing Documents and to perform its obligations under this Agreement and the Buyer's Closing Documents, and such action has been duly authorized by all necessary corporate action.

(b) Neither the execution and delivery of this Agreement by Buyer nor the consummation or performance of any of the Transactions by Buyer will, directly or indirectly (with or without notice or the lapse of time):

(i) Breach or give any Person the right to prevent, delay, or otherwise interfere with any of the Transactions pursuant to (A) any provision of Buyer's Governing Documents, or (B) any resolution adopted by the board of directors or the stockholders of Buyer which is presently in force;

(ii) Breach or give any Governmental Body or other Person the right to challenge, prevent, delay, or otherwise interfere with any of the Transactions or to exercise any remedy or obtain any relief under, any Legal Requirement or Order to which Buyer may be subject; or

(iii) Breach in any material respect of any provision of, or give any Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or payment under, or to cancel, terminate, or modify any Contract to which Buyer is a party or by which Buyer may be bound, in a manner that would prevent, delay or interfere with any of the Transactions.

(c) Buyer is not and will not be required to give any notice to or obtain any Consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Transactions.

Section 4.3 Legal Proceedings; Orders.

(a) There is no pending Proceeding that has been commenced against Buyer and that challenges, or may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Transactions. To Buyer's Knowledge, no such Proceeding has been threatened and no event or circumstance exists that may give rise to or serve as a basis for the commencement of any such Proceeding.

(b) There are no Orders outstanding that challenge, or that may have the effect of preventing, delaying, making illegal or otherwise materially interfering with, any of the Transactions. To the Knowledge of Buyer, no such Order has been threatened, and no event has occurred or circumstance exists that may give rise to or serve as a basis for the commencement of any such Order.

Section 4.4 Brokers or Finders. Neither Buyer nor any of its officers, directors, employees or agents have incurred any Liability for brokerage or finders' fees or agents' commissions or other similar payment in connection with the Transactions.

ARTICLE V COVENANTS OF THE PARTIES

Section 5.1 Payment of Liabilities; Bulk Sales Laws. Each of Buyer and Seller shall pay or otherwise satisfy in the Ordinary Course of Business all of its respective liabilities and obligations relating to the Automated Systems Business. Buyer and Seller hereby waive compliance with the bulk transfer provisions of the Uniform Commercial Code (or any similar law) ("BULK SALES LAWS") in connection with the Transactions.

Section 5.2 Employees and Employee Benefits.

(a) For a period of at least 90 days from the date hereof (the "INITIAL EMPLOYMENT PERIOD"), Buyer shall hire the Employees and provide such Employees with compensation, benefits and terms of employment substantially similar to those afforded to Buyer's existing employees of similar position and seniority. Buyer shall waive all waiting periods for health and dental coverage and any pre-existing condition exclusion. Buyer shall credit each Employee for their service with Seller for purposes of vesting and eligibility under Buyer's employment benefit plans and rate of accrual of such Employees' vacation time. Notwithstanding the foregoing, Buyer shall, at any time, be entitled to terminate an Employee for cause with no liability or obligation to such Employee or Seller (including the severance payments described below) except as required by law.

(b) It is understood and agreed that after the Initial Employment Period, employment offered by Buyer to any Employee is "at will" and may be terminated by Buyer or by an Employee at any time for any reason (subject to any written commitments to the contrary made by Buyer). Nothing in this Agreement shall be deemed to prevent or restrict in any way the right of Buyer to terminate, reassign, promote or demote any of the Employees after the Initial Employment Period, or to change (adversely or favorably) the title, powers, duties, responsibilities, functions, locations, salaries, other compensation or terms or conditions of employment of the Employees after the Initial Employment Period.

(c) All unvested options to purchase stock of Seller that each Employee holds as of the date hereof ("OLD OPTIONS") shall be canceled by Seller and Buyer shall grant each such Employee a new option to purchase the number of shares of stock of CoHu equal to the number of shares subject to the Old Options held by such Employee.

(d) Buyer agrees that it shall make severance payments to Employees who are not employed by Buyer following the Initial Employment Period. Any severance payments payable by Buyer under this Section 5.2(d) shall be determined in accordance with the severance policies of Buyer as applied to Buyer's existing employees of similar position and seniority and giving full credit for an Employee's service with Seller. Seller shall be responsible for (i) the payment of all wages, accrued vacation and other remuneration due to its Employees with respect to their services as employees of Seller through the close of business on the date hereof, and (ii) the provision of health plan continuation coverage in accordance with the requirements of COBRA and Section 601 through 608 of ERISA. Seller shall be liable for any claims made or incurred by the Employees and their beneficiaries through the Closing Date under the Employee Benefit Plans. For purposes of the immediately preceding sentence, a charge will be deemed incurred, in the case of hospital, medical or dental benefits, when the services that are the subject of the charge are performed and, in the case of other benefits (such as disability or life insurance), when an event has occurred or when a condition has been diagnosed which entitles the Employee to the benefit.

(e) Seller shall be responsible for any notices required to be given under, or otherwise comply with, the Workers Adjustment and Retraining Notification Act ("WARN") or similar statutes or regulations of any jurisdiction relating to any plant closing or mass layoff (or

similar triggering event) caused by Seller with respect to the Employees prior to and on the date hereof. Buyer shall be responsible for any notices required to be given under, or otherwise comply with, WARN or similar statutes or regulations of any jurisdiction relating to any plant closing or mass layoff (or similar triggering event) caused by Buyer with respect to the Employees after the date hereof. For the purposes of WARN and this Agreement, the date hereof shall be the same as the "effective date" within the meaning of WARN.

(f) Seller and Buyer shall give any notices required by law and take whatever other actions with respect to the plans, programs and policies described in this Section 5.2 as may be necessary to carry out the arrangements described in this Section 5.2.

(g) Seller and Buyer shall provide each other with such plan documents and summary plan descriptions, employee data or other information as may be reasonably required to carry out the arrangements described in this Section 5.2.

Section 5.3 Reports and Returns. Seller and Buyer shall promptly after the Closing prepare and file all reports and returns required by applicable Legal Requirements relating to the Automated Systems Business.

Section 5.4 Customer and Other Business Relationships. After the date hereof, Seller shall cooperate with Buyer in its efforts to continue and maintain for the benefit of Buyer those business relationships of Seller existing prior to the date hereof relating to the Automated Systems Business, including relationships with lessors, employees, regulatory authorities, licensors, customers, suppliers and others, and Seller shall satisfy the Retained Liabilities in a manner which is not detrimental to any of such relationships. Seller shall refer to Buyer all inquiries relating to the Automated Systems Business. Neither Seller nor any of its officers, employees, or agents, shall take any action which would tend to diminish the value of the Assets after the Closing or which would interfere with the Automated Systems Business after the Closing, including, without limitation, disparaging the name or business of Buyer.

Section 5.5 Further Assurances. The parties shall cooperate reasonably with each other and with their respective Representatives in connection with any steps required to be taken as part of their respective obligations under this Agreement, and the parties agree (a) to furnish upon request to each other such further information, (b) to execute and deliver to each other such other documents, and (c) to do such other acts and things, all as the other party may reasonably request for the purpose of carrying out the intent of this Agreement and the Transactions.

ARTICLE VI INDEMNIFICATION

Section 6.1 Survival. All representations, warranties, covenants, and obligations in this Agreement, the Schedules attached hereto, the certificates delivered pursuant to Section 2.5, and any other certificate or document delivered pursuant to this Agreement shall survive the Closing and the consummation of the Transactions. The right to indemnification, reimbursement, or other remedy based on such representations, warranties, covenants and obligations shall not be affected by any investigation conducted with respect to, or any Knowledge acquired (or capable

of being acquired) about, the accuracy or inaccuracy of or compliance with, any such representation, warranty, covenant or obligation. The waiver of any condition based on the accuracy of any representation or warranty, or on the performance of or compliance with any covenant or obligation, will not affect the right to indemnification, reimbursement, or other remedy based on such representations, warranties, covenants, and obligations.

Section 6.2 Indemnification and Reimbursement By Seller. Seller shall indemnify and hold harmless Buyer and Cohu (together, the "BUYER INDEMNIFIED PERSONS"), and shall reimburse the Buyer Indemnified Persons, for any loss, liability, claim, damage, expense (including costs of investigation and defense and reasonable attorneys' fees and expenses) or diminution of value, whether or not involving a third-party claim (collectively, "DAMAGES"), arising from or in connection with:

(a) any Breach of any representation or warranty made by Seller in this Agreement or Seller's Closing Documents;

(b) any Breach of any covenant or obligation of Seller in this Agreement or Seller's Closing Documents;

(c) any product or component thereof produced by or shipped, or any services provided by Seller, in whole or in part, prior to the date hereof, other than warranty claims;

(d) any Retained Liabilities;

(e) any noncompliance with any Bulk Sales Law or fraudulent transfer law in respect of the Transactions; or

(f) any Employee Benefit Plans established or maintained by Seller;

Section 6.3 Indemnification and Reimbursement by Buyer. Buyer shall indemnify and hold harmless Seller, and shall reimburse Seller for any Damages arising from or in connection with:

(a) any Breach of any representation or warranty made by Buyer in this Agreement or Buyer's Closing Documents;

(b) any Breach of any covenant or obligation of Buyer in this Agreement or Buyer's Closing Documents;

(c) any Assumed Liabilities; or

(d) any product or component thereof produced by or shipped or any services provided by Buyer, in whole or in part on and after the date hereof.

Section 6.4 Time Limitations.

(a) All of the representations, warranties, covenants and obligations of the Parties contained in this Agreement shall survive the Closing and continue in full force and effect for the following survival periods from the Closing Date:

(i) For all sections of this Agreement other than Section 3.1, Section 3.3, Section 3.7 Section 4.1 and Section 4.2, for a period of twelve months from the date hereof;

(ii) For Section 3.7, for a period of three years from the date hereof;

(iii) For Section 3.1, Section 3.3, Section 4.1 and Section 4.2, indefinitely.

(b) Seller has no liability (for indemnification or otherwise) with respect to any representation or warranty, or covenant or obligation to be performed and complied with prior to the date hereof, unless on or before the first anniversary of the Closing Date with respect to the sections listed in Section 6.4(a)(i), and the third anniversary of the Closing Date with respect to the sections listed in Section 6.4(a)(ii), Buyer notifies Seller of a claim specifying the factual basis of that claim in reasonable detail to the extent then known by Buyer. Any claim with respect to Section 3.1, or Section 3.3 may be made at any time.

(c) Buyer has no liability (for indemnification or otherwise) with respect to any representation or warranty, or covenant or obligation to be performed and complied with prior to the date hereof, unless on or before the first anniversary of the Closing Date Seller notifies Buyer of a claim specifying the factual basis of that claim in reasonable detail to the extent then known by Seller. Any claim with respect Section 4.1 or Section 4.2 may be made at any time.

Section 6.5 Procedure for Indemnification - Third Party Claims.

(a) Promptly after receipt by an indemnified party under Section 6.2 or Section 6.3 of notice of the commencement of any Proceeding against it, such indemnified party will, if a claim is to be made against an indemnifying party under such Section, give notice to the indemnifying party of the commencement of such Proceeding together with the estimated amount of claims under such Proceeding, but the failure to notify the indemnifying party, or delay in such notification, will not relieve the indemnifying party of any liability that it may have to any indemnified party, except to the extent that the indemnifying party demonstrates that the defense of such action is prejudiced by the indemnifying party's failure to give, or delay in giving, such notice.

(b) If an indemnified party gives notice to the indemnifying party of the commencement of a Proceeding referred to in Section 6.5(a), the indemnifying party will be entitled to participate in such Proceeding and, to the extent that it wishes to assume the defense of such Proceeding with counsel reasonably satisfactory to the indemnified party and, after notice from the indemnifying party to the indemnified party of its election to assume the defense of such

Proceeding, it being understood that the indemnifying party shall control such defense except as otherwise provided below, the indemnifying party will not, as long as it diligently conducts such defense, be liable to the indemnified party under this Article VI for any fees of other counsel or any other expenses with respect to the defense of such Proceeding, in each case subsequently incurred by the indemnified party in connection with the defense of such Proceeding, other than reasonable costs of investigation (unless (i) the indemnifying party is also a party to such Proceeding and the indemnified party determines in good faith that joint representation would be inappropriate, or (ii) the indemnifying party fails to provide reasonable assurance to the indemnified party of its financial capacity to defend such Proceeding and provide indemnification with respect to such Proceeding). If the indemnifying party assumes the defense of a Proceeding, (y) no compromise or settlement of such claims may be effected by the indemnifying party without the indemnified party's Consent unless (A) there is no finding or admission of any violation of Legal Requirements or any violation of the rights of any Person and no effect on any other claims that may be made against the indemnified party, and (B) the sole relief provided is monetary damages that are paid in full by the indemnifying party; and (z) the indemnified party will have no liability with respect to any compromise or settlement of such claims effected without its Consent (which may not be unreasonably withheld). If an indemnifying party chooses to defend or prosecute a third-party claim, the indemnified party shall cooperate in the defense or prosecution thereof, which cooperation shall include, to the extent reasonably requested by the indemnifying party, the retention, and the provision to indemnifying party, of records and information reasonably relevant to such third-party claim, and making employees available on a mutually convenient basis to provide additional information and explanation of any materials provided thereunder. No indemnified party may settle or otherwise resolve any Proceeding, unless the indemnified party fully indemnifies the indemnifying party in writing with respect to such liability in a manner satisfactory to the indemnifying party. No indemnifying party shall be liable under this Section 6.5 for any settlement, compromise or discharge effected without its Consent in respect of any claim for which indemnity may be sought hereunder. No indemnified party shall take any action the purpose of which is to prejudice the defense of any claim subject to indemnification hereunder or to induce a third party to assert a claim subject to indemnification hereunder.

(c) Notwithstanding the foregoing, if an indemnified party reasonably determines in good faith that there is a reasonable probability that a Proceeding may materially adversely affect it or its Related Persons other than as a result of monetary damages for which it would be entitled to indemnification under this Agreement, the indemnified party may, by notice to the indemnifying party, assume the exclusive right to defend, compromise, or settle such Proceeding, but the indemnifying party will have no liability for the purposes of this Agreement or any compromise or settlement effected without its Consent (which may not be unreasonably withheld).

Section 6.6 Procedure For Indemnification - Other Claims. A claim for indemnification for any matter not involving a third-party claim may be asserted by notice to the party from whom indemnification is sought.

Section 6.7 Right of Set Off. Either party shall be entitled at all times to set off against any amount owing at any time from the other party any amount payable at any time to such party asserting the set off right.

Section 6.8 General Provisions Regarding Indemnification Rights.

(a) Neither party shall be required to make any payments pursuant to this Article VI unless and until the aggregate amount of all Damages pursuant to this Article VI shall exceed an amount equal to \$50,000, at which time the indemnifying party shall then be responsible for all Damages claimed by the indemnified party hereunder. The maximum aggregate amount recoverable from Seller with respect to any claims under this Agreement other than claims related to the breach of Section 3.7 shall not exceed \$1,420,000. The maximum aggregate amount recoverable from Seller with respect to any claims under Section 3.7 shall be \$4,260,000.

(b) A party entitled to indemnification hereunder shall take all commercially reasonable steps to mitigate all Damages upon and after becoming aware of any event which could reasonably be expected to give rise to Damages that are indemnifiable hereunder.

(c) Any indemnification payment required to be paid by a party pursuant to this Section 6.8 shall be reduced by (i) the amount of any insurance proceeds payable to the indemnified party with respect to its loss, (ii) any indemnity, contribution or other similar payment payable to the indemnified party by any third party with respect to its loss and (iii) an amount equal to any reduction of income Tax of the indemnified party attributable to its loss.

(d) To the extent that an indemnifying party discharges any claim for indemnification hereunder, the indemnifying party shall be subrogated to all rights of the indemnified party against third parties.

(e) All indemnity payments made under this Section 6.8 shall be treated by the parties for all Tax purposes as adjustments to the consideration paid.

(f) Any liability for indemnification hereunder shall be determined without duplication of recovery by reason of the state of facts giving rise to such liability constituting a breach of more than one representation, warranty, covenant or agreement.

(g) Each party's rights to indemnification as provided for in this Section 6.8 for breach of the other's representations or warranties contained in this Agreement shall constitute the indemnified party's sole remedy for such a breach, and the indemnifying party shall have no other liability or Damages to the indemnified party resulting from the breach.

(h) The indemnification and other provisions of this Section 6.8 shall govern the procedure for all indemnification matters under this Agreement, except to the extent otherwise expressly provided herein.

ARTICLE VII
GENERAL PROVISIONS

Section 7.1 Confidentiality; Public Announcements.

(a) Buyer and Seller shall maintain in confidence, and shall cause their respective directors, officers, employees, agents, and advisors to maintain in confidence, and not use to the detriment of the other party, any written, oral, or other information obtained in confidence from another party in connection with this Agreement or the Transactions, unless (i) such information is already known to such party or to others not bound by a duty of confidentiality or such information becomes publicly available through no fault of such party, (ii) the use of such information is necessary or appropriate in making any filing or obtaining any Consent required for the consummation of the Transactions, or (iii) the furnishing or use of such information is required by or necessary in connection with any Proceeding.

(b) Any public announcement or similar publicity with respect to this Agreement or the Transactions may be issued, if at all, at such time and in such manner as mutually agreed to by Buyer and Seller; provided, however, that in the case of announcements, statements, acknowledgments or revelations which either party is required by applicable Legal Requirements to make, issue or release, the making, issuing or releasing of any such announcement, statement, acknowledgment or revelation by the party so required to do by applicable Legal Requirements shall not constitute a breach of this Agreement if such party shall have given, to the extent reasonably possible, notice thereof to the other party not less than two (2) days prior to such disclosure and shall have attempted, to the extent reasonably possible, to clear such announcement, statement, acknowledgment or revelation with the other party. Subject to the foregoing, Seller and Buyer shall consult with each other concerning the means by which Seller's employees, customers, and suppliers and others having dealings with the Seller will be informed of the Transactions, and Buyer will have the right to be present for any such communication.

Section 7.2 Transfer Taxes. All Transfer Taxes arising out of, in connection with or attributable to the transactions effected pursuant to this Agreement shall be borne and paid by the Transfer Tax Payor. The Transfer Tax Payor shall prepare and timely file all relevant Tax Returns required to be filed in respect of such Transfer Tax and pay the Transfer Tax shown on such Tax Return.

Section 7.3 Expenses. Except as otherwise expressly provided in this Agreement, each party to this Agreement shall bear its respective expenses incurred in connection with the preparation, execution, and performance of this Agreement and the Transactions, including all fees and expenses of its Representatives.

Section 7.4 Notices. All notices, Consents, waivers, and other communications under this Agreement must be in writing and are deemed to have been duly given when (a) delivered by hand (with written confirmation of receipt), (b) sent by facsimile or with confirmation of transmission by the transmitting equipment, (c) five (5) days after delivery, if sent by certified mail, return receipt requested, or (d) one (1) day after delivery, if sent by a nationally recognized

overnight delivery service, return receipt requested, in each case to the appropriate addresses, facsimile numbers or email addresses set forth below (or to such other addresses, facsimile numbers or as a party may designate by notice to the other parties):

Buyer: Delta Design, Inc.
12367 Crosthwaite Circle
Poway, CA 92064-6817
Attention: John Allen
Vice President Finance
Fax: (858) 848-8185

with a copy to: Gray Cary Ware & Freidenrich LLP
4365 Executive Drive, Suite 1600
San Diego, CA 92121-2189
Attention: Douglas J. Rein, Esq.
Fax: (858) 677-1477

Seller: Schlumberger Technologies, Inc.
150 Baytech Drive
San Jose, CA 95134
Attention: Danita J.M. Maseles, Esq.
Fax: (408) 586-4655

with a copy to: Skadden, Arps, Slate Meagher & Flom LLP
Four Embarcadero Center, Suite 3800
San Francisco, CA 94111
Attention: Theodore J. Kozloff, Esq.
Fax: (415) 984-2698

Section 7.5 Jurisdiction, Service of Process. The parties hereby irrevocably and unconditionally:

(a) agree that any and all actions, suits or other legal proceedings, whether or not arising under this agreement and regardless of the legal theory upon which the claims are based, may be brought by a party only in a state or federal court situated within San Diego County, California, and consent to the exclusive jurisdiction of such courts in any such legal proceeding.

(b) consent to the non-exclusive jurisdiction of the state and federal courts situated within San Diego County, California in any and all actions, suits or other legal proceedings brought against either party, and agree that service of process in any such legal proceeding may be effected in accordance with the statutes of California and the United States, as appropriate, and

(c) waive any objection it may now or hereafter have to the venue of any such legal proceeding in any such court.

Section 7.6 Waiver. The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right under this Agreement or the documents referred to in this Agreement operates as a waiver of such right, and no single or partial exercise of any such right precludes any other or further exercise of such right or the exercise of any other right. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement or the documents referred to in this Agreement can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one party will be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.

Section 7.7 Entire Agreement and Modification. This Agreement and the Confidentiality Agreement dated March 19, 2001 supersede all prior agreements (including that certain Offer Letter by and between Buyer and Seller dated May 17, 2001), whether written or oral, between the parties with respect to the subject matter hereof and constitute (along with the Schedules, Exhibits and other documents delivered pursuant to this Agreement) a complete and exclusive statement of the terms of the agreement between the parties with respect to the subject matter hereof and thereof. This Agreement may not be amended except by a written agreement signed on behalf of each of the parties hereto.

Section 7.8 Assignments, Successors, and No Third-Party Rights. No party may assign any of its rights or delegate any of its obligations under this Agreement without the prior written consent of the other party, except that either party may assign any of its rights and delegate any of its obligations under this Agreement to its parent corporation or any wholly-owned Subsidiary thereof and may collaterally assign its rights hereunder to any financial institution providing financing in connection with the Transactions, provided that no such assignment or delegation shall relieve such party from any of its obligations hereunder. Subject to the preceding sentence, this Agreement applies to, is binding in all respects upon, and inures to the benefit of the successors and permitted assigns of the parties. Nothing in this Agreement is to be construed to give any Person other than the parties to this Agreement any legal or equitable right under or with respect to this Agreement or any provision of this Agreement, except such rights as shall inure to a successor or permitted assignee pursuant to this Section 7.8.

Section 7.9 Severability. If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement remain in full force and effect. The parties further agree that if any provision contained herein is, to any extent, held invalid or unenforceable in any respect under the laws governing this Agreement, they shall take any actions necessary to render the remaining provisions of this Agreement valid and enforceable to the fullest extent permitted by law and, to the extent necessary, shall amend or otherwise modify this Agreement to replace any provision contained herein that is held invalid or unenforceable with a valid and enforceable provision giving effect to the intent of the parties.

Section 7.10 Section Headings, Construction, Schedules. The headings of Articles and Sections in this Agreement are provided for convenience only and will not affect its construction or interpretation. All Exhibits and Schedules to this Agreement are incorporated into and constitute an integral part of this Agreement as if fully set forth herein. All words used in this Agreement will be construed to be of such gender or number as the context requires. All references to documents, instruments or agreements shall be deemed to refer as well to all addenda, exhibits, schedules or amendments thereto. The language used in the Agreement shall be construed, in all cases, according to its fair meaning, and not for or against any party hereto. The parties acknowledge that each party has reviewed this Agreement and that rules of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be available in the interpretation of this Agreement.

Section 7.11 Time of Essence. With regard to all dates and time periods set forth or referred to in this Agreement, time is of the essence.

Section 7.12 Governing Law. This Agreement will be governed by and construed under the laws of the State of California without regard to conflicts of laws principles that would require the application of any other law.

Section 7.13 Execution of Agreement, Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement. The exchange of copies of this Agreement and of signature pages by facsimile transmission shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original Agreement for all purposes. Signatures of the parties transmitted by facsimile shall be deemed to be their original signatures for any purpose whatsoever.

[Remainder of page intentionally left blank]

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

BUYER:

DELTA DESIGN, INC.

By: /s/ John H. Allen

Name: John H. Allen

Its: VP Finance & CFO

SELLER:

SCHLUMBERGER TECHNOLOGIES, INC.

By: /s/ Ashok K. Belani

Name: Ashok K. Belani

Its: Vice President

[Signature page to Asset Purchase Agreement]

TABLE OF CONTENTS

	Page

ARTICLE I DEFINITIONS.....	1
ARTICLE II SALE AND TRANSFER OF ASSETS.....	8
Section 2.1 Assets to Be Sold.....	8
Section 2.2 Excluded Assets.....	10
Section 2.3 Consideration.....	11
Section 2.4 Liabilities.....	11
Section 2.5 Allocation of Purchase Price.....	12
Section 2.6 Closing Obligations.....	13
Section 2.7 Consents.....	14
ARTICLE III REPRESENTATIONS AND WARRANTIES OF SELLER.....	15
Section 3.1 Organization and Good Standing.....	15
Section 3.2 Subsidiaries.....	15
Section 3.3 Enforceability, Authority, No Conflict.....	15
Section 3.4 Financial Statements.....	16
Section 3.5 Books and Records.....	17
Section 3.6 Sufficiency of Assets.....	17
Section 3.7 Intellectual Property.....	17
Section 3.8 Customers.....	20
Section 3.9 Real Property, Condition of Facilities.....	20
Section 3.10 Personal Property.....	21
Section 3.11 Inventories.....	21
Section 3.12 No Undisclosed Liabilities.....	21
Section 3.13 Taxes.....	21
Section 3.14 No Material Adverse Change.....	21
Section 3.15 Employees.....	21
Section 3.16 Employee Benefits.....	22
Section 3.17 Compliance With Legal Requirements; Governmental Authorizations...	22
Section 3.18 Legal Proceedings; Orders.....	23
Section 3.19 Absence of Certain Changes and Events.....	24
Section 3.20 Contracts; No Defaults.....	25
Section 3.21 Environmental Matters.....	26
Section 3.22 Certain Payments.....	27
Section 3.23 Relationships with Related Persons.....	27
Section 3.24 Brokers or Finders.....	28
Section 3.25 Disclosure.....	28
ARTICLE IV REPRESENTATIONS AND WARRANTIES OF BUYER.....	28
Section 4.1 Organization and Good Standing.....	28
Section 4.2 Authority, No Conflict.....	28
Section 4.3 Legal Proceedings; Orders.....	29
Section 4.4 Brokers or Finders.....	29

TABLE OF CONTENTS
(continued)

	Page

ARTICLE V COVENANTS OF THE PARTIES.....	30
Section 5.1 Payment of Liabilities; Bulk Sales Laws.....	30
Section 5.2 Employees and Employee Benefits.....	30
Section 5.3 Reports and Returns.....	31
Section 5.4 Customer and Other Business Relationships.....	31
Section 5.5 Further Assurances.....	31
ARTICLE VI INDEMNIFICATION.....	32
Section 6.1 Survival.....	32
Section 6.2 Indemnification and Reimbursement By Seller.....	32
Section 6.3 Indemnification and Reimbursement by Buyer.....	32
Section 6.4 Time Limitations.....	33
Section 6.5 Procedure for Indemnification - Third Party Claims.....	33
Section 6.6 Procedure For Indemnification - Other Claims.....	35
Section 6.7 Right of Set Off.....	35
Section 6.8 General Provisions Regarding Indemnification Rights.....	35
ARTICLE VII GENERAL PROVISIONS.....	36
Section 7.1 Confidentiality; Public Announcements.....	36
Section 7.2 Transfer Taxes.....	36
Section 7.3 Expenses.....	36
Section 7.4 Notices.....	37
Section 7.5 Jurisdiction, Service of Process.....	37
Section 7.6 Waiver.....	38
Section 7.7 Entire Agreement and Modification.....	38
Section 7.8 Assignments, Successors, and No Third-Party Rights.....	38
Section 7.9 Severability.....	38
Section 7.10 Section Headings, Construction, Schedules.....	39
Section 7.11 Time of Essence.....	39
Section 7.12 Governing Law.....	39
Section 7.13 Execution of Agreement, Counterparts.....	39

RENAMING, AMENDMENT AND RESTATEMENT TO
COHU, INC. KEY EXECUTIVE LONG TERM
INCENTIVE PLAN
AND NOW KNOWN AS THE
COHU, INC. DEFERRED COMPENSATION PLAN

Article I

Establishment of Plan

1.1 Purpose. The Cohu, Inc. Key Executive Long Term Incentive Plan established February 23, 1994 is hereby renamed, amended and restated in its entirety as the Cohu, Inc. Deferred Compensation Plan, as more fully provided herein. This document is intended to fully replace any and all provisions of the plan known as the Cohu, Inc. Key Executive Long Term Incentive Plan, and all rights and benefits provided to the Participants under such plan are replaced by the rights and benefits provided herein.

1.2 The Cohu, Inc. Deferred Compensation Plan is to provide deferred compensation benefits to selected executives of Cohu, Inc. The benefits provided under the Plan are intended to be in addition to other employee benefits programs offered by the Corporation, including but not limited to tax-qualified employee benefit plans.

1.3 Effective Date and Term. Cohu, Inc. adopts this First Amendment to this unfunded deferred compensation plan effective as of August 1, 2001, to be known as the Cohu, Inc. Deferred Compensation Plan, hereinafter referred to as the "Plan."

1.4 Applicability of ERISA. This Plan is intended to be a "top-hat" plan. This Plan is an unfunded plan maintained primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees within the meaning of ERISA.

Article II
Definitions

As used within this document, the following words and phrases have the meanings described in this Article II unless a different meaning is required by the context. Some of the words and phrases used in the Plan are not defined in this Article II, but for convenience, are defined as they are introduced into the text. Words in the masculine gender shall be deemed to include the feminine gender. Any headings used are included for ease of reference only and are not to be construed so as to alter any of the terms of the Plan.

2.1 Annual Deferral. The amount of Base Salary and/or Bonuses which the Participant elects to defer in each Deferral Period pursuant to Article 4.1 of the Plan Document.

2.2 Base Salary. A Participant's basic annual salary for the applicable Plan Year.

2.3 Beneficiary. An individual or entity designated by a Participant in accordance with Section 12.6.

2.4 Board or Board of Directors. The Board of Directors of the Corporation.

2.5 Bonus. Earnings awarded to a Participant at the option of the Corporation which may or may not occur during each Plan Year.

2.6 Code. The Internal Revenue Code of 1986. Reference to a section of the Code shall include that section and any comparable section or sections of any future legislation that amends, supplements or supersedes such section.

2.7 Committee. A Committee of one or more individuals appointed by the Board of Directors to administer the Plan.

2.8 Corporation. Cohu, Inc.

2.9 Deferral Account. The account established for a Participant pursuant to Section 5.1 of the Plan Document.

2.10 Deferral Election. The election made by the Participant pursuant to Section 4.1 of the Plan Document.

2.11 Deferral Period. The Plan Year, or in the case of a newly hired or promoted employee who becomes an Eligible Employee during a Plan Year, the remaining portion of the Plan Year.

2.12 Disability. A total and permanent disability, which qualifies the Participant for early payment of benefits, as described in Section 7.2. The existence of a Disability shall be determined by the Committee on the advice of a physician chosen by the Committee.

2.13 Effective Date. August 1, 2001.

2.14 Eligible Employee. An employee of the Corporation who is designated by the Committee.

2.15 ERISA. The Employee Retirement Income Security Act of 1974, as amended.

2.16 IRS. The Internal Revenue Service.

2.17 Normal Retirement Age. The earlier of age Sixty-five (65) years or the date upon which the Participant ceases full time employment with the Corporation after he has attained age sixty-five (65) years.

2.18 Normal Retirement Date. The first day of the first month coincident with or next following the date on which a Participant reaches age 65, or if a participant continues to be employed by the Corporation after attaining age 65, the first day of the first month coincident with or next following the date on which a Participant ceases full time employment with the Corporation.

2.19 Participant. Any individual who becomes eligible to participate in the Plan pursuant to Article III of the Plan Document.

2.20 Participant Agreement and Election Form. The written agreement to defer Salary and/or Bonuses made by the Participant. Such written agreement shall be in a format designated by the Corporation.

2.21 Plan. The Cohu, Inc. Deferred Compensation Plan.

2.22 Plan Administrator. The Corporation unless the Corporation designates another individual or entity to hold the position of the Plan Administrator.

2.23 Plan Year. The "Plan Year" means the 12-month period beginning each January 1 and ending on the following December 31.

2.24 Rabbi Trust. The Rabbi Trust, which the Corporation may, in its discretion, establish for the Cohu, Inc. Deferred Compensation Plan, as amended from time to time.

2.25 Rollover Contributions. Amounts credited to Participant's accounts as starting balances under the provisions of the Cohu, Inc. Key Executive Long Term Incentive Plan as determined in the sole discretion of the Committee.

2.26 Valuation Date. Each business day of the Plan Year.

2.27 Years of Service. Each consecutive twelve (12) month period during which a Participant is continuously employed by the Corporation.

Article III Eligibility and Participation

3.1 Participation -- Eligibility and Initial Period. Participation in the Plan is open only to Eligible Employees of the Corporation (as defined in section 2.14). Any employee becoming an Eligible Employee after the Effective Date, e.g., new hires or promoted employees, may become a Participant for the Deferral Period commencing on or after he becomes an Eligible Employee if he submits a properly completed Participant Agreement and Deferral Election within thirty days after becoming eligible for participation.

3.2 Participation -- Subsequent Entry into Plan. An Eligible Employee who does not elect to participate at the time of initial eligibility as set forth in Section 3.1 shall remain eligible to become a Participant in subsequent Plan Years as long as he continues his status as an Eligible Employee. In such event, the Eligible Employee may become a Participant by submitting a properly executed Participant Agreement and Deferral Election Form prior to December 31 of the Plan Year for which it is effective.

Article IV
Contributions

4.1 Deferral Election. Before the first day of each Plan Year, a Participant may file with the Committee, a Deferral Election Form indicating the amount of Salary and/or Bonus Deferrals for that Plan Year. A Participant shall not be obligated to make a Deferral Election in each Plan Year. After a Plan Year commences, such Deferral Election shall continue for the entire Plan Year and subsequent years except that it shall terminate upon the execution and submission of a newly completed Deferral Election Form or termination of employment.

4.2 Maximum Deferral Election. A Participant may elect to defer up to twenty-five percent (25 %) of Base Salary and/or up to one hundred percent (100%) of Bonuses earned. A Deferral Election may be automatically reduced if the Committee determines that such action is necessary to meet Federal, FICA or State tax withholding obligations.

4.3 Annual Employer Contributions. The Corporation shall make a contribution equal to an amount that is four percent (4%) of the Participant's annual salary that exceeds the limit, as indexed, provided under Section 401(a)(17) of the Internal Revenue Code.

4.4 Discretionary Employer Contributions. The Corporation, in its sole discretion, may from time to time, make contributions.

4.5 Rollover Contributions. An amount determined for each Participant in the Cohu, Inc. Key Executive Long Term Incentive Plan that shall be deemed an Employee Deferral.

Article V
Accounts

5.1 Deferral Accounts. Solely for recordkeeping purposes, the Plan Administrator shall establish a Deferral Account for each Participant. A Participant's Deferral Account shall be credited with the contributions made by him or on his behalf by the Corporation under Section 4 and shall be credited (or charged, as the case may be) with the hypothetical or deemed investment earnings and losses determined pursuant to Section 5.3, and charged with distributions made to or with respect to him.

5.2 Crediting of Deferral Accounts. Salary contributions under Section 4.1 shall be credited to a Participant's Deferral Account as of the date on which such contributions were withheld from his Base Annual Salary. Bonus contributions under Section 4.1 shall be credited to a Participant's Deferral Account as of the date on which the contribution would have otherwise been paid in cash. Contributions under Section 4.3, 4.4, and 4.5 shall be credited to the Participant's Deferral Account on the date declared by the Corporation. Any distribution with respect to a Deferral Account shall be charged to that Account as of the date such payment is made by the Corporation or the trustee of the Rabbi Trust which is established for the Plan.

5.3 Earning Credits or Losses. Amounts credited to a Deferral Account shall be credited with deemed net income, gain and loss, including the deemed net unrealized gain and loss based

on hypothetical investment directions made by the Participant with respect to his Deferral Account on a form designated by the Corporation, in accordance with investment options and procedures adopted by the Corporation in its sole discretion, from time to time.

5.4 Hypothetical Nature of Accounts. The Plan constitutes a mere promise by the Corporation to make the benefit payments in the future. Any Deferral Account established for a Participant under this Article V shall be hypothetical in nature and shall be maintained for the Corporation's recordkeeping purposes only, so that any contributions can be credited and so that deemed investment earnings and losses on such amounts can be credited (or charged, as the case may be). Neither the Plan nor any of the Accounts (or subaccounts) shall hold any actual funds or assets. The right of any individual or entity to receive one or more payments under the Plan shall be an unsecured claim against the general assets of the Corporation. Any liability of the Corporation to any Participant, former Participant, or Beneficiary with respect to a right to payment shall be based solely upon contractual obligations created by the Plan. The Corporation, the Board of Directors, the Committee and any individual or entity shall not be deemed to be a trustee of any amounts to be paid under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Corporation and a Participant, former Participant, Beneficiary, or any other individual or entity. The Corporation may, in its sole discretion, use a Rabbi Trust as a vehicle in which to place funds with respect to this Plan. The Corporation does not in any way guarantee any Participant's Deferral Account against loss or depreciation, whether caused by poor investment performance, insolvency of a deemed investment or by any other event or occurrence. In no event shall any employee, officer, director, or stockholder of the Corporation be liable to any individual or entity on account of any claim arising by reason of the Plan provisions or any instrument or instruments implementing its provisions, or for the failure of any Participant, Beneficiary or other individual or entity to be entitled to any particular tax consequences with respect to the Plan or any credit or payment thereunder.

5.5 Statement of Deferral Accounts. The Plan Administrator shall provide to each Participant quarterly statements setting forth the value of the Deferral Account maintained for such Participant.

Article VI Vesting

6.1 Vesting. The Corporation's contributions credited to a Participant's Deferral Account under Plan Section 4.3 and 4.4 and any deemed investment earnings attributable to these contributions shall be one hundred percent (100%) vested or nonforfeitable when the Participant has two Years of Service with the Corporation. Prior to the time a Participant has two Years of Service with the Corporation, the Corporation's contributions to his account shall be zero percent (0%) vested. In addition, a Participant shall be one hundred percent (100%) vested in the Corporation's contributions, including any deemed investment earnings attributable to these contributions, upon his death or disability while he is actively employed by the Corporation. All other amounts credited to a Participant's Deferral Account shall be one hundred percent (100%) vested at all times.

Article VII Benefits

7.1 Retirement. Unless benefits have already commenced pursuant to another section in this Article VII, a Participant shall be entitled to begin receipt of the vested amount credited to his Deferral Account as of the Valuation Date coinciding with his Normal Retirement Date. Payment of any amount under this Section shall commence within thirty (30) days of the Participant's Retirement and be in accordance with the payment method elected by the Participant on his Participant Agreement and Deferral Election Form.

7.2 Disability. If a Participant suffers a Disability while employed with the Corporation and before he is entitled to benefits under this Article, he shall receive the amount credited to his Deferral Account as of the Valuation Date coinciding with the Date on which the Participant is determined to have suffered a Disability. Payment of any amount under this Section shall commence within thirty (30) days of when the Committee determines the existence of the Participant's disability and be in accordance with the payment method elected by the Participant on his Participant Agreement and Deferral Election Form.

7.3 Pre-Retirement Survivor Distribution. If a Participant dies before becoming entitled to benefits under this Article, the Beneficiary or Beneficiaries designated under Section 12.6, shall receive the vested amount credited to the Participant's Deferral Account as of the Valuation Date coinciding with the date of the Participant's death. Payment of any amount under this Section shall be made within thirty (30) days of the Participant's death, or if later, within 30 days of when the Committee receives notification of or otherwise confirms the Participant's death, and be in accordance with the payment method elected by the Participant on his Participant Agreement and Deferral Election Form.

7.4 Post-Retirement Survivor Benefit. If a Participant dies after benefits have commenced, but prior to receiving complete payment of benefits under this Article, the Beneficiary or Beneficiaries designated under Section 12.6, shall continue to receive the vested amount credited to the Participant's Deferral Account as of the Valuation Date coinciding with the date of the Participant's death and be in accordance with the current payment method for Retirement Distribution as elected by the Participant on his Participant Agreement and Deferral Election Form. Payment of any amount under this Section shall be made within thirty (30) days of the Participant's death, or if later, within 30 days of when the Committee receives notification of or otherwise confirms the Participant's death.

7.5 Termination. If a Participant's employment terminates with the Corporation before he becomes entitled to receive benefits by reason of any of the above Sections, he shall receive the vested amount credited to his Deferral Account as of the Valuation Date coinciding with the date on which the Participant's employment terminates. Payment of any amount under this Section shall be made within thirty (30) days of when the Participant terminates his employment with the Corporation and be in accordance with the payment method elected by the Participant on his Participant Agreement and Deferral Election Form.

7.6 Change in Control. If a Change in Control occurs before a Participant becomes entitled to receive benefits by reason of any of the above Sections or before the Participant has

received complete payment of his benefits under this Article, he shall receive payment of the amount credited to his Account as of the Valuation Date immediately preceding the date on which the Change in Control occurs. Payment of any amount under this section shall commence within thirty (30) days of when the Change in Control occurs and be in accordance with the payment method elected by the Participant on his Participant Agreement and Deferral Election Form.

7.7 Change of Control. For the purposes of this section, a Change in Control means a merger or consolidation of the Corporation (except with a wholly owned subsidiary), a sale by the Corporation of all or substantially all of its assets, the acquisition of beneficial ownership of a majority of the outstanding voting stock of the Corporation by any person, entity or affiliated group or a change in the identities of a majority of the directors of the Corporation within a period of thirty consecutive months resulting in whole or in part from the election of persons who were not management nominees.

7.8 Payment Methods. Unless otherwise provided in this Article VII, a Participant may elect to receive payment of the amount credited to his Deferral Account in ten (10) or fifteen (15) annual installments for Retirement and in a lump sum, five year, ten year or fifteen year annual installments upon Disability, Pre-Retirement Death, Termination or Change in Control. This election must be made on the initial Participant Agreement and Election Form. Any installment payments shall be paid annually on the first practicable day after the distributions are scheduled to commence. Each installment payment shall be determined by multiplying the Deferral Account Balance by a fraction, the numerator of which is one and the denominator of which is the number of remaining installment payments.

Article VIII Establishment of Trust

8.1 Establishment of Trust. The Corporation established a Rabbi Trust for the Plan. If the Corporation so desires, all benefits payable under this Plan to a Participant shall be paid directly by the Corporation from the Rabbi Trust. To the extent that such benefits are not paid from the Rabbi Trust, the benefits shall be paid from the general assets of the Corporation. The Rabbi Trust, if any, shall be an irrevocable grantor trust which conforms to the terms of the model trust as described in IRS Revenue Procedure 92-64, I.R.B. 1992-33. The assets of the Rabbi Trust are subject to the claims of the Corporation's creditors in the event of its insolvency. Except as provided under a Rabbi Trust, the Corporation shall not be obligated to set aside, earmark or escrow any funds or other assets to satisfy its obligations under this Plan, and the Participant and/or his designated Beneficiaries shall not have any property interest in any specific assets of the Corporation other than the unsecured right to receive payments from the Corporation, as provided in this Plan.

Article IX
Plan Administration

9.1 Plan Administration. The Plan shall be administered by the Committee, and such Committee may designate an agent to perform the recordkeeping duties. The Committee shall construe and interpret the Plan, including disputed and doubtful terms and provisions and, in its sole discretion, decide all questions of eligibility and determine the amount, manner and time of payment of benefits under the Plan. The determinations and interpretations of the Committee shall be consistently and uniformly applied to all Participants and Beneficiaries, including but not limited to interpretations and determinations of amounts due under this Plan, and shall be final and binding on all parties. The Plan at all times shall be interpreted and administered as an unfunded deferred compensation plan, and no provision of the Plan shall be interpreted so as to give any Participant or Beneficiary any right in any asset of the Corporation which is a right greater than the right of a general unsecured creditor of the Corporation.

Article X
Nonalienation of Benefits

10.1 Nonalienation of Benefits. The interests of Participants and their Beneficiaries under this Plan are not subject to the claims of their creditors and may not be voluntarily or involuntarily sold, transferred, alienated, assigned, pledged, anticipated, or encumbered, attached or garnished. Any attempt by a Participant, his Beneficiary, or any other individual or entity to sell, transfer, alienate, assign, pledge, anticipate, encumber, attach, garnish, charge or otherwise dispose of any right to benefits payable shall be void. The Corporation may cancel and refuse to pay any portion of a benefit which is sold, transferred, alienated, assigned, pledged, anticipated, encumbered, attached or garnished. The benefits which a Participant may accrue under this Plan are not subject to the terms of any Qualified Domestic Relations Order (as that term is defined in Section 414(p) of the Code) with respect to any Participant, and the Plan Administrator, Board of Directors, Committee and Corporation shall not be required to comply with the terms of such order in connection with this Plan. The withholding of taxes from Plan payments, the recovery of Plan overpayments of benefits made to a Participant or Beneficiary, the transfer of Plan benefit rights from the Plan to another plan, or the direct deposit of Plan payments to an account in a financial institution (if not actually a part of an arrangement constituting an assignment or alienation) shall not be construed as assignment or alienation under this Article.

Article XI
Amendment and Termination

11.1 Amendment and Termination. The Corporation reserves the right to amend or alter, retroactively or prospectively, or discontinue this Plan at any time. Such action may be taken in writing by any officer of the Corporation who has been duly authorized by the Corporation to perform acts of such kind. However, no such amendment shall deprive any Participant or Beneficiary of any portion of any benefit which would have been payable had the Participant's employment with the Corporation terminated on the effective date of such amendment or termination. Notwithstanding the provisions of this Article to the contrary, the Corporation may

amend the Plan at any time, in any manner, if the Corporation determines any such amendment is required to ensure that the Plan is characterized as providing deferred compensation for a select group of management or highly compensated employees and as described in ERISA Sections 201(2), 301(a)(3) and 401(a)(1) or to otherwise conform the Plan to the provisions of any applicable law including ERISA and the Code.

Article XII General Provisions

12.1 Good Faith Payment. Any payment made in good faith in accordance with provisions of the Plan shall be a complete discharge of any liability for the making of such payment under the provisions of this Plan.

12.2 No Right to Employment. This Plan does not constitute a contract of employment, and participation in the Plan shall not give any Participant the right to be retained in the employment of the Corporation.

12.3 Binding Effect. The provisions of this Plan shall be binding upon the Corporation and its successors and assigns and upon every Participant and his heirs, Beneficiaries, estates and legal representatives.

12.4 Participant Change of Address. Each Participant entitled to benefits shall file with the Plan Administrator, in writing, any change of post office address. Any check representing payment and any communication addressed to a Participant or a former Participant at this last address filed with the Plan Administrator, or if no such address has been filed, then at his last address as indicated on the Corporation's records, shall be binding on such Participant for all purposes of the Plan, and neither the Plan Administrator nor the Corporation or other payer shall not be obliged to search for or ascertain the location of any such Participant. If the Plan Administrator is in doubt as to the address of any Participant entitled to benefits or as to whether benefit payments are being received by a Participant, it shall, by registered mail addressed to such Participant at his last known address, notify such Participant that:

(i) All unmailed and future Plan payments shall be withheld until Participant provides the Plan Administrator with evidence of such Participant's continued life and proper mailing address; and

(ii) Participant's right to any Plan payment shall, at the option of the Committee, be canceled forever, if, at the expiration of five (5) years from the date of such mailing, such Participant shall not have provided the Committee with evidence of his continued life and proper mailing address.

12.5 Notices. Each Participant shall furnish to the Plan Administrator any information the Plan Administrator deems necessary for purposes of administering the Plan, and the payment provisions of the Plan are conditional upon the Participant furnishing promptly such true and complete information as the Plan Administrator may request. Each Participant shall submit proof of his age when required by the Plan Administrator. The Plan Administrator shall, if such proof of age is not submitted as required, use such information as is deemed by it to be reliable, regardless of the lack of proof, or the misstatement of the age of individuals entitled to benefits.

Any notice or information which, according to the terms of the Plan or requirements of the Plan Administrator, must be filed with the Plan Administrator, shall be deemed so filed if addressed and either delivered in person or mailed to and received by the Plan Administrator, in care of the Corporation at:

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

12.6 Designation of Beneficiary. Each Participant shall designate, by name, on Beneficiary designation forms provided by the Plan Administrator, the Beneficiary(ies) who shall receive any benefits which might be payable after such Participant's death. A Beneficiary designation may be changed or revoked without such Beneficiary's consent at any time or from time to time in the manner as provided by the Plan Administrator, and the Plan Administrator shall have no duty to notify any individual or entity designated as a Beneficiary of any change in such designation which might affect such individual or entity's present or future rights. If the designated Beneficiary does not survive the Participant, all amounts which would have been paid to such deceased Beneficiary shall be paid to any remaining Beneficiary in that class of beneficiaries, unless the Participant has designated that such amounts go to the lineal descendants of the deceased Beneficiary. If none of the designated primary Beneficiaries survive the Participant, and the Participant did not designate that payments would be payable to such Beneficiary's lineal descendants, amounts otherwise payable to such Beneficiaries shall be paid to any successor Beneficiaries designated by the Participant, or if none, to the Participant's spouse, or, if the Participant was not married at the time of death, the Participant's estate.

No Participant shall designate more than five (5) simultaneous beneficiaries, and if more than one (1) beneficiary is named, Participant shall designate the share to be received by each Beneficiary. Despite the limitation on five (5) Beneficiaries, a Participant may designate more than five (5) beneficiaries provided such beneficiaries are the surviving spouse and children of the Participant. If a Participant designates alternative, successor, or contingent beneficiaries, such Participant shall specify the shares, terms and conditions upon which amounts shall be paid to such multiple, alternative, successor or contingent beneficiaries. Except as provided otherwise in this Section, any payment made under this Plan after the death of a Participant shall be made only to the Beneficiary or Beneficiaries designated pursuant to this Section.

12.7 Claims. Any claim for benefits must initially be submitted in writing to the Plan Administrator. If such claim is denied (in whole or in part), the claimant shall receive notice from the Plan Administrator, in writing, setting forth the specific reasons for denial, with specific reference to applicable provisions of this Plan. Such notice shall be provided within ninety (90) days of the date the claim for benefits is received by the Plan Administrator, unless special circumstances require an extension of time for processing the claim, in which event notification of the extension shall be provided to the claimant prior to the expiration of the initial 90 day period. The extension notification shall indicate the special circumstances requiring the extension of time and the date by which the Plan Administrator expects to render its decision. Any such extension shall not exceed 90 days. Any disagreements about such interpretations and construction may be appealed in writing by the claimant to the Plan Administrator within sixty (60) days. After receipt of such Appeal, the Plan Administrator shall respond to such appeal

within sixty (60) days, with a notice in writing fully disclosing its decision and its reasons. If special circumstances require an extension of time to process the appealed claim, notification of the extension shall be provided to the claimant prior to the commencement of the extension. Any such extension shall not exceed 60 days. No member of the Board of Directors, or any committee thereof, or any employee or officer of the Corporation, shall be liable to any individual or entity for any action taken hereunder, except those actions undertaken with lack of good faith.

12.8 Action by Board of Directors. Any action required to be taken by the Board of Directors of the Corporation pursuant to the Plan provisions may be performed by a committee of the Board, to which the Board of Directors of the Corporation delegates the authority to take actions of that kind.

12.9 Governing Law. To the extent not superseded by the laws of the United States, the laws of the State of California shall be controlling in all matters relating to this Plan.

12.10 Severability. In the event any provision of this Plan shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Plan, and the Plan shall be interpreted and enforced as if such illegal and invalid provisions had never been set forth.

IT WITNESS WHEREOF, Cohu, Inc. has adopted the foregoing instrument effective as of August 1, 2001.

Cohu, Inc.

By: /s/ John H. Allen

Title: Vice President Finance & CFO