

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 29, 2012

OR

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

Commission file number 1-4298

COHU, INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
Incorporation or Organization)*

95-1934119

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

12367 Crosthwaite Circle, Poway, California

(Address of principal executive offices)

92064-6817

(Zip Code)

Registrant's telephone number, including area code: (858) 848-8100

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>
Common Stock, \$1.00 par value
Preferred Share Purchase Rights, \$1.00 par value

<u>Name of Exchange on Which Registered</u>
The NASDAQ Stock Market LLC
The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of voting stock held by nonaffiliates of the registrant was approximately \$109,000,000 based on the closing stock price as reported by the NASDAQ Stock Market LLC as of June 29, 2012. Shares of common stock held by each officer and director and by each person or group who owns 5% or more of the outstanding common stock have been excluded in that such persons or groups may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 11, 2013 the Registrant had 24,639,179 shares of its \$1.00 par value common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Cohu, Inc.'s 2013 Annual Meeting of Stockholders to be held on May 15, 2013, and to be filed pursuant to Regulation 14A within 120 days after registrant's fiscal year ended December 29, 2012, are incorporated by reference into Part III of this Report.

COHU, INC.
FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 29, 2012
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The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. This Annual Report on Form 10-K 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 (the “Exchange Act”), and is subject to the Safe Harbor provisions created by that statute. These forward-looking statements are based on management’s current expectations and beliefs, including estimates and projections about our industries. Statements concerning financial position, business strategy, and plans or objectives for future operations are forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties, and assumptions that are difficult to predict and may cause actual results to differ materially from management’s current expectations. Such risks and uncertainties include those set forth in this Annual Report on Form 10-K under the heading “Item 1A. Risk Factors”. The forward-looking statements in this report speak only as of the time they are made and do not necessarily reflect management’s outlook at any other point in time. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or for any other reason. However, readers should carefully review the risk factors set forth in other reports or documents we file from time to time with the Securities and Exchange Commission (“SEC”) after the date of this Annual Report.

PART I

Item 1. Business.

Cohu, Inc. (“Cohu”, “we”, “our” and “us”) was incorporated under the laws of California in 1947, as Kalbfell Lab, Inc. and commenced active operations in the same year. Our name was changed to Kay Lab in 1954. In 1957, Cohu was reincorporated under the laws of the State of Delaware as Cohu Electronics, Inc. and in 1972, our name was changed to Cohu, Inc.

We have three reportable segments: semiconductor equipment, mobile microwave communication systems and video cameras. Our semiconductor equipment segment, Cohu’s Semiconductor Equipment Group (“SEG”), encompasses Cohu’s wholly owned subsidiaries Delta Design, Inc. (“Delta”), Rasco GmbH (“Rasco”) and Ismeca Semiconductor Holding SA (“Ismeca”). Delta develops, manufactures and sells pick-and-place semiconductor test handlers, burn-in related equipment and thermal sub-systems to semiconductor manufacturers and test subcontractors throughout the world. Rasco develops, manufactures and sells gravity-feed and test-in-strip semiconductor test handling equipment and micro-electro-mechanical systems (“MEMS”) test modules used in final test operations by semiconductor manufacturers and test subcontractors. Ismeca, acquired by Cohu on December 31, 2012, designs, manufactures and sells turret-based test handling and back-end finishing equipment for integrated circuits, light emitting diodes (LEDs) and discrete components used by semiconductor manufacturers and test subcontractors throughout the world in assembly and packaging of devices. The acquisition of Ismeca was completed subsequent to the end of Cohu’s fiscal year ended December 29, 2012 and certain disclosures include Ismeca to enable investors to evaluate the operating and financial effects to our business recognized in the subsequent accounting period. Unless otherwise indicated, disclosures made throughout this Form 10-K exclude the effect of the acquisition of Ismeca.

Our microwave communication systems segment is comprised of our wholly owned subsidiary Broadcast Microwave Services, Inc. (“BMS”). BMS develops, manufactures and sells microwave communications equipment to government agencies, law enforcement and public safety organizations, unmanned air vehicle program contractors, television broadcasters, entertainment companies, professional sports teams and other commercial entities. Our video camera segment (“Electronics Division”) develops, manufactures and sells a wide selection of video cameras and related products, specializing in video solutions for security, surveillance and traffic monitoring. Customers for these products are distributed among security, surveillance, traffic control/management, scientific imaging and machine vision.

Sales by reportable segment, expressed as a percentage of total consolidated net sales, for the last three years were as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Semiconductor equipment	81%	84%	85%
Microwave communications	12%	10%	10%
Video cameras	7%	6%	5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Additional financial information on our reportable segments for each of the last three years is included in Note 7, “Segment and Related Information” in Part IV, Item 15(a) of this Form 10-K.

Semiconductor Equipment

We are a worldwide supplier of semiconductor test handling systems, MEMS test modules, burn-in equipment and thermal sub-systems. Our semiconductor equipment companies develop, manufacture, sell and service a broad line of equipment capable of handling a wide range of integrated circuit packages. Test handlers are electromechanical systems used to automate testing of the packaged integrated circuit in the “back-end” of the semiconductor manufacturing process. Testing determines the quality and performance of the integrated circuit prior to shipment to customers. Testers are designed to verify the performance of the integrated circuit, such as microprocessors, logic, analog, memory or mixed signal devices. Handlers are engineered to thermally condition and present for testing the packaged semiconductor devices. The majority of test handlers use either pick-and-place, gravity-feed, turret or test-in-strip technologies. The type of packaged device normally determines the appropriate handling approach. Gravity-feed handling is the predominant solution for temperature testing of small outline leaded and non-leaded packages, as well as for large packages with leads on only one or two sides as is common in high power devices. In gravity-feed handlers, integrated circuits are unloaded from plastic tubes, metal magazines or a bowl at the top of the machine and flow through the system, from top to bottom, propelled by the force of gravity. After testing, the integrated circuits are sorted and reloaded into tubes, magazines, bulk or tape for additional process steps or final shipment.

Integrated circuits with leads on all four sides, such as the quad flat pack, or with balls or pads on the bottom or sides of the package, such as ball grid array packages, and quad flat no-lead packages as well as certain low profile integrated circuits with leads on two sides, such as the thin small outline package, and wafer-level packages are predominately handled in pick-and-place systems. Pick-and-place handlers use robotic mechanisms to move integrated circuits from Jedec trays and place them in precision transport boats or carriers for processing through the system. After testing, integrated circuits are sorted and reloaded into designated trays, based on test results.

Test-in-strip handlers accommodate integrated circuits in strips or panels prior to the final singulation step in the semiconductor manufacturing process flow and are typically used for high-parallel testing applications. Turret-based handlers use a rotating “turret” mechanism that provides very high device throughput and efficient integration of multiple back-end finishing operations. Turret handlers are ideally suited for high-volume and high-mix testing of smaller integrated circuits and discrete and LED devices. MEMS test modules are independent physical stimuli units for testing sensor integrated circuits typically used in the automotive and consumer electronics industries. These MEMS test modules can be integrated to our gravity-feed, pick & place, or test-in-strip handlers for testing a variety of sensors, including pressure, acoustic, magnetic field hall effect, optical and others.

To ensure quality, semiconductors are typically tested at hot and/or cold temperatures, which can simulate the final operating environment. Our test handler products are designed to provide a precisely controlled test environment, often over the range of -60 degrees Celsius to +175 degrees Celsius. As the speed and power of certain integrated circuits, such as microprocessors, has increased so has the need to actively manage the self-generated heat during the test process to maximize yield. This heat is capable of damaging or destroying the integrated circuit and can result in speed downgrading, when devices self-heat and fail to successfully test at their maximum possible speed. Device yields are extremely important and speed grading directly affects the selling price of the integrated circuit and the profitability of the semiconductor manufacturer. In addition to temperature capability, other key factors in the design of test handlers are handling speed, flexibility, parallel test capability, alignment to the test contactors, system size, reliability and cost.

Delta provides thermal sub-systems for use in advanced burn-in and system-level test applications. These thermal sub-systems maintain and control the temperature of the integrated circuit during the testing process. Burn-in stresses devices for detection of early failures (infant mortality) prior to distribution. The burn-in process is also used by semiconductor manufacturers to develop reliability models of newly introduced devices. The objective of reliability testing is to determine a device’s fault-free operation and estimated useful life by exposing the device to various electrical and thermal conditions that impact its performance. System-level testing is required for functional testing of high-end microprocessors as well as mobile processors combined with memory integrated circuits. This is typically the last test operation of complex, expensive integrated circuits prior to the electronic assembly process.

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Our products are complex electromechanical systems that are used in high-volume production environments and many are in service twenty-four hours per day, seven days a week. Customers continuously strive to increase the utilization of their production test equipment and expect high reliability from test handling, MEMS test modules and thermal subsystems used in burn-in and system-level test. The availability of trained technical support personnel is an important competitive factor in the marketplace. Our semiconductor equipment companies deploy service engineers worldwide, often within customers' production facilities, who work with customer personnel to maintain, repair and continuously improve the performance of our equipment.

Our Semiconductor Equipment Products

We offer products for the pick-and-place, gravity-feed, test-in-strip and turret handling, MEMS, burn-in and system-level test markets. We currently sell the following products in the semiconductor equipment market:

Pick-and-place

The Delta **EDGE** is a pick-and-place handler that combines an economical design with a small footprint and fast index time (processing speed of the contactor placement mechanism). The **EDGE** handler is designed to meet the needs of integrated circuit manufacturers and subcontractors who test at ambient and hot temperatures.

The Delta **MATRIX** is a high performance pick-and-place handler capable of thermally conditioning devices from -60 degrees Celsius to +175 degrees Celsius. It provides increased productivity in several dimensions of performance: up to three times higher throughput and four times higher parallelism than our previous generation products, and active thermal control per test site. With an adjustable test site configuration, customers can reuse existing load-boards, including those made for gravity handlers. The system also provides flexibility with field upgradeable options including a chamberless tri-temperature test site and auto contactor cleaning.

The Delta **Castle** is a pick-and-place test handler capable of thermally conditioning devices from -60 degrees Celsius to +160 degrees Celsius. The Castle can position from one to nine devices for testing. Its large thermal soak chamber provides a continuous flow of thermally conditioned devices to the test site allowing the handler to process parts at high speed when running at temperature. The Castle incorporates an innovative vertical tray storage system that saves space on the test floor by minimizing the handler's footprint.

The Delta **Pyramid** is a high performance thermal handler providing high throughput, high parallel test capability for microprocessors and graphics processors. The Pyramid incorporates Delta's proprietary thermal control technology. The system is highly configurable and is capable of adapting to various customer requirements ranging from small tablet microprocessor testing to high-end server product testing.

Delta's **Summit** series of pick-and-place thermal handlers are designed to meet the requirements of manufacturers of microprocessors, graphic processors and other high speed, high power integrated circuits. The Summit handlers incorporate Delta's proprietary thermal control technology. The Summit PTC, or Passive Thermal Control, and ATC, or Active Thermal Control, models dissipate the heat generated during test enabling the integrated circuit to be tested successfully at its maximum speed and performance.

Gravity-Feed

Rasco's **SO1x00** is a high throughput gravity-feed platform that provides an economical solution for testing up to 8 devices in parallel. These handlers can be configured for tube-to-tube or metal magazine input and output, ambient-hot or tri-temperature testing and are easily kit-able for a wide range of integrated circuit packages.

Rasco's **SO2x00** is a modular platform that offers a reliable solution for testing small integrated circuit packages and up to 8 devices in parallel. The base platform can be configured with various input and output modules: tube, metal magazine, bowl, bulk, tape and reel, and an optional laser marking unit. These handlers can be configured for ambient-hot or tri-temperature testing.

Rasco's **Saturn** and **Jupiter** are our next generation gravity handlers delivering a fast index time capability with up to 8 devices tested in parallel at cold and/or hot temperature. Saturn has a configuration that covers testing of very small to medium size packaged integrated circuits, and Jupiter is a version that enables testing of medium to very large packaged integrated circuits typically serving the power management device market.

Test-in-strip

Rasco's **SO3000**, test-in-strip handler, can process an entire strip at once or index the strip for single/multiple device testing. The system has tri-temperature capability, accommodates either stacked or slotted input/output media and can be configured with optional, automated vision alignment.

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Turret

Ismeca's **NX16** is a high-speed, 16-position turret handler commonly used for testing and inspection of integrated circuits, LEDs and discrete devices. The product is highly configurable with bowl or tube feeding, tape and bulk output modules along with many processing options including laser marking, scanning, vision and test. The NX16 is capable of testing devices at ambient and hot temperature.

Ismeca's **NX32** is a scalable, 32-position turret handler used for testing and inspection of integrated circuits, LEDs, and discrete devices. There are many configurations of the NX32 turret handler: handling wafers in film-frame for input and/or output that is common for LEDs and wafer level package (WLP) devices; tray and tube input and/or output used for integrated circuits and discretes; and bowl feeding, tape and de-taping, alignment, laser marking, scanning, vision and test modules. The NX32 is capable of testing devices at ambient and hot temperature.

Ismeca's **NY20** is our next generation turret handler platform that delivers higher throughput combined with fast device change-over time for both high-volume and high-mix testing and inspection of integrated circuits, LEDs and discrete devices. The new 20-position turret offers many of the functional modules and capabilities available on the NX16 and NX32 platforms in a smaller footprint, higher throughput handler.

Micro-Electro-Mechanical Systems ("MEMS")

Rasco's MEMS series are modules that generate a physical stimuli for testing of sensor integrated circuits typically used in the automotive (tire pressure, airbag sensors) and consumer electronics (tilt, motion, microphone and light sensors) industries. The MEMS modules are stand-alone units that can be integrated into Delta or Rasco pick-and-place, test-in-strip, or gravity-feed handlers.

Burn-in

Delta's **VTS300**, is an automated burn-in system that supports asynchronous loading and unloading of devices without system interruption, transforming the burn-in process from a traditional batch-oriented approach to a more efficient continuous-flow process.

Thermal Sub-Systems

Delta adapted its proprietary thermal control technology for use by integrated circuit manufacturers in high performance burn-in and system level test. The **T-Core** thermal sub-systems provide fast and accurate thermal control of the integrated circuit during the testing process using the same technology available in the Pyramid handler. T-Core is also used in engineering and device characterization applications.

Spares

Delta, Rasco and Ismeca provide consumable and non-consumable items that are used to maintain, sustain or otherwise enable their equipment to meet its performance, availability and production requirements.

Tooling (kits)

Delta, Rasco and Ismeca design and manufacture a wide range of device dedication kits that enable handlers to process different semiconductor packages. Our Philippines operation, established in 2004, designs and manufactures the majority of our handler kits and provides applications support to customers in the southeast Asia region.

Sales by Product Line

During the last three years, sales of our semiconductor equipment products were distributed as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Semiconductor test handler systems	56%	57%	64%
Thermal sub-systems and burn-in equipment	5%	3%	1%
Spares, tooling (kits) and service	39%	40%	35%

Microwave Communications

BMS develops, manufactures and sells microwave communications equipment, antenna systems and associated equipment. These products are used in the transmission of video, audio and telemetry data. Applications for these microwave data-links include unmanned aerial vehicles (UAVs), law enforcement, security and surveillance and electronic news gathering. Customers include government agencies, law enforcement and public safety organizations, unmanned air vehicle program contractors, television broadcasters, entertainment companies, professional sports teams and other commercial entities.

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Video Cameras

The Electronics Division develops, manufactures and sells a wide selection of video cameras and related products, specializing in video solutions for security, surveillance and traffic monitoring, closed circuit video or CCTV cameras, equipment and systems. The customer base for these products is distributed among traffic control and management, security/surveillance, military, scientific imaging and machine vision. The Electronics Division's products are high-performance, high-resolution cameras that meet the most demanding performance requirements and are resistant to harsh operating environments. The Electronics Division also offers customized products and accessories including cables, camera mounts and data storage devices.

Customers

Semiconductor Equipment

Our customers include semiconductor integrated device manufacturers and test subcontractors. Repeat sales to existing customers represent a significant portion of our sales. During the last three years, customers from our semiconductor equipment segment that have comprised 10% or greater of our consolidated net sales are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Intel	39%	36%	26%
Texas Instruments	*	11%	14%

* Less than 10% of net sales

The loss of, or a significant reduction in, orders by these or other significant customers, including reductions due to market, economic or competitive conditions or the outsourcing of final integrated circuit test to subcontractors that are not our customers would adversely affect our financial condition and results of operations and as a result, we believe that our customer concentration is a significant business risk.

Additional financial information on revenues from external customers by geographic area for each of the last three years is included in Note 7, "Segment and Related Information" in Part IV, Item 15(a) of this Form 10-K.

Microwave Communications

Our customer base for microwave communications equipment is diverse and includes government agencies, law enforcement and public safety organizations, unmanned air vehicle program contractors, television broadcasters, entertainment companies, professional sports teams and other commercial entities throughout the world. No single customer of this segment accounted for 10% or more of our consolidated net sales in 2012, 2011 or 2010.

Video Cameras

Our customer base in the video camera industry segment is also diverse and includes corporate end-users, state and federal government agencies, original equipment manufacturers, system integrators and value-added resellers. No single customer of this segment accounted for 10% or more of our consolidated net sales in 2012, 2011 or 2010.

Sales and Marketing

We market our products worldwide through a combination of a direct sales force and independent sales representatives. In geographic areas where we believe there is sufficient sales potential, we generally employ our own personnel. The U.S. sales office for our semiconductor equipment businesses is located at Delta's Poway, California facility. The Europe sales office is located at Rasco's Kolbermoor, Germany facility. We operate in Asia with headquarters in Singapore and a branch office in Taipei, Taiwan. Sales in Japan and Korea are made primarily through independent sales representatives.

Competition

Semiconductor Equipment

The semiconductor equipment industry is intensely competitive and is characterized by rapid technological change and demanding worldwide service requirements. Significant competitive factors include product performance, price, reliability, customer support and installed base of products. While we are a leading worldwide supplier of semiconductor test handling equipment, we face substantial competition. The Japanese and Korean markets for test handling equipment are large and represent a significant percentage of the worldwide market. During each of the last three years our sales to Japanese and Korean customers, who have historically purchased test handling equipment from Asian suppliers, have represented less than 10% of our total sales. Some of our current and potential competitors are part of larger corporations that have substantially greater financial, engineering, manufacturing and customer support capabilities and offer more extensive product offerings than

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Cohu. To remain competitive we believe we will require significant financial resources to offer a broad range of products, maintain customer support and service centers worldwide and to invest in research and development of new products. Failure to introduce new products in a timely manner or the introduction by competitors of products with actual or perceived advantages could result in a loss of competitive position and reduced sales of existing products. No assurance can be given that we will continue to compete successfully throughout the world.

Microwave Communications and Video Cameras

Our products in the microwave communications and video camera segments are sold in highly competitive markets throughout the world, where we compete on the basis of product performance and integration with customer requirements, service, product quality, reliability and price. Many of our competitors are divisions or segments of large, diversified companies with substantially greater financial, engineering, marketing, manufacturing and customer support capabilities than Cohu. No assurance can be given that we will continue to compete successfully in these market segments.

Backlog

Our backlog of unfilled orders for products, by segment, at December 29, 2012 and December 31, 2011, was as follows:

<i>(in millions)</i>	2012	2011
Semiconductor equipment	\$30.6	\$38.2
Microwave communications	10.0	11.1
Video cameras	4.1	2.6
Total consolidated backlog	<u>\$44.7</u>	<u>\$51.9</u>

Backlog is generally expected to be shipped within the next twelve months. Our backlog at any point in time may not be representative of actual sales in any future period due to the possibility of customer changes in delivery schedules, cancellation of orders, potential delays in product shipments, difficulties in obtaining parts from suppliers, failure to satisfy customer acceptance requirements and the inability to recognize revenue under accounting requirements. Furthermore, many orders are subject to cancellation or rescheduling by the customer with limited or no penalty. A reduction in backlog during any particular period could have a material adverse effect on our business, financial condition and results of operations. There is no significant seasonal aspect to our business. The decrease in our backlog at December 29, 2012 is a result of the downturn in the global semiconductor equipment industry, which led to decreased orders for our semiconductor test handling systems during 2012.

Manufacturing and Raw Materials

Our manufacturing operations are currently located in Poway, California (Delta, BMS and Electronics Division); Laguna, the Philippines (Delta); Kolbermoor, Germany (Rasco); Malacca, Malaysia (Ismecca); Suzhou, China (Ismecca); La Chaux-de-Fonds, Switzerland (Ismecca) and Kemel, Germany (BMS).

Many of the components and subassemblies we utilize are standard products, although some items are made to our specifications. Certain components, particularly in our semiconductor equipment businesses, are obtained or are available from a limited number of suppliers. We seek to reduce our dependence on sole and limited source suppliers, however in some cases the complete or partial loss of certain of these sources could have a material adverse effect on our operations while we attempt to locate and qualify replacement suppliers.

Patents and Trademarks

Our proprietary technology is protected by various intellectual property laws including patents, licenses, trademarks, copyrights and trade secrets. In addition, we believe that, due to the rapid pace of technological change in the semiconductor equipment industry and our other business segments, the successful manufacture and sale of our products also depends upon our experience, technological know-how, manufacturing and marketing skills and speed of response to sales opportunities. In the absence of patent protection, we would be vulnerable to competitors who attempt to copy or imitate our products or processes. We believe our intellectual property has value and we have in the past and will in the future take actions we deem appropriate to protect such property from misappropriation. However, there can be no assurance such actions will provide meaningful protection from competition. Protecting our intellectual property rights or defending against claims brought by other holders of such rights, either directly against us or against customers we have agreed to indemnify, would likely be expensive and time consuming and could have a material adverse effect on our operations.

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Research and Development

Certain of the markets in which we compete, particularly the semiconductor equipment industry, are characterized by rapid technological change. Research and development activities are carried on in our various subsidiaries and division and are directed toward development of new products and equipment, as well as enhancements to existing products and equipment. Our total research and development expense was \$36.2 million in each of 2012, 2011 and 2010.

We work closely with our customers to make improvements to our existing products and in the development of new products. 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 of existing products.

Environmental Laws

Our business is subject to numerous federal, state, local and international environmental laws. On occasion, we have been notified by local authorities of instances of noncompliance with local and/or state environmental laws. We believe we are in compliance with applicable federal, state, local and international regulations. Compliance with foreign, federal, state and local laws that have been enacted or adopted regulating the discharge of materials into the environment or otherwise relating to the protection of the environment and the prevention of climate change have not had a material effect and is not expected to have a material effect upon the capital expenditures, results of operations or our competitive position. However, future changes in regulations may require expenditures that could adversely impact earnings in future years.

Executive Officers of the Registrant

The following sets forth the names, ages, positions and offices held by all executive officers of Cohu as of February 28, 2013. Executive Officers serve at the discretion of the Board of Directors, until their successors are appointed.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Cohu:		
James A. Donahue	64	Chairman, President and Chief Executive Officer
Jeffrey D. Jones	51	Vice President, Finance and Chief Financial Officer
John H. Allen	61	Vice President, Administration
Cohu wholly owned subsidiaries:		
Luis A. Müller	43	President – Cohu SEG
Hock W. Chiang	55	Vice President Global Sales & Service – Cohu SEG
Peter Portmann	55	Vice President Global Operations – Cohu SEG
Thomas G. Lightner	68	Vice President Global Quality – Cohu SEG
Samer Kabbani	38	President – Delta Design Systems
James G. McFarlane	62	President – Delta Design Kit Operations

Mr. Donahue has been employed by Delta since 1978 and was President of Delta from May, 1983 until December, 2010. In October, 1999, Mr. Donahue was named President and Chief Operating Officer of Cohu and was appointed to Cohu's Board of Directors. In June, 2000, Mr. Donahue was promoted to Chief Executive Officer and was appointed Chairman of the Board in March, 2010.

Mr. Jones joined Delta in 2005 as Vice President Finance. In November 2007, Mr. Jones was named Vice President, Finance and Chief Financial Officer of Cohu. Prior to joining Delta, Mr. Jones, was a consultant from 2004 to 2005 and Vice President and General Manager of the Systems Group at SBS Technologies, Inc., a designer and manufacturer of embedded computer products, from 1998 to 2003.

Mr. Allen has been employed by Cohu since June, 1995. He was Director of Finance until September, 1995, became Vice President, Finance in September, 1995, and was appointed Chief Financial Officer in October, 1995. In November 2007, Mr. Allen was made Vice President, Administration. Prior to joining Cohu, Mr. Allen held various positions with Ernst & Young LLP from 1976 until June, 1995 and had been a partner with that firm since 1987.

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Mr. Müller joined Delta in 2005 as Director of Engineering. In July 2008, Mr. Müller was promoted to the position of Vice President of the High Speed Handling Group for Delta and in January 2009 he was named Managing Director of Rasco. In January 2011, Mr. Müller was appointed President of Cohu's Semiconductor Equipment Group, which encompasses Cohu subsidiaries Delta Design, Inc., Rasco GmbH and Ismeca Semiconductor.

Mr. Chiang has been employed by Cohu since October 2012 as Vice President, Global Sales & Service for Cohu's Semiconductor Equipment Group. Prior to joining Cohu, Mr. Chiang served as a Director for AXELite Technology Corporation. Additionally, from 1995 through 2011, Mr. Chiang held a variety of positions at Teradyne, Inc. ("Teradyne") including Director – Asia SOC Marketing & New Business Development, Managing Director of Teradyne's Singapore and China operations and Director of Worldwide Field Total Quality Management.

Mr. Portmann began his employment with Cohu with the acquisition of Ismeca on December 31, 2012 and was named Vice President Global Operations of Cohu's Semiconductor Equipment Group in January 2013. Immediately prior to joining Cohu, Mr. Portman served as the Vice President and Global Operations Manager of Ismeca for seven years. Additionally, from 1994 through 2001, Mr. Portmann held a variety of leadership positions at Ismeca including General Manager of Ismeca Malaysia and Vice President of the Semiconductor Division.

Mr. Lightner has been employed by Cohu since July 2000 and has served as Delta's Vice President, Manufacturing from April 2001 to October 2007, Vice President, Operations, of Broadcast Microwave Services, Inc., the Company's wholly-owned microwave communications subsidiary from October 2007 to June 2010 and as Delta's Vice President, Quality from June 2010 to January 2011. In February 2013, Mr. Lightner was appointed Vice President, Global Quality of Cohu's Semiconductor Equipment Group.

Mr. Kabbani joined Delta in 2003 holding several leadership positions in engineering. In 2007, Mr. Kabbani was promoted to the position of Vice President of the High Performance Logic Group and in 2011 he became Vice President of Engineering for Delta. Mr. Kabbani was named President of Delta Design Systems in February 2013.

Mr. McFarlane has been employed by Delta since 1989. He was Director of Engineering from 1992 to 1998 and was promoted to Vice President of Engineering in 1998. In 2000, Mr. McFarlane was promoted to Senior Vice President and in February 2013 was named President of Delta Design Kit Operations.

Employees

Including headcount additions arising from our acquisition of Ismeca, as of December 31, 2012, we had approximately 1,500 employees. Our employee headcount has fluctuated in the last five years primarily due to the volatile business conditions in the semiconductor equipment industry and the acquisitions of Rasco and Ismeca. None of our employees are covered by collective bargaining agreements, however, certain employees at Rasco's facility in Kolbermoor, Germany, are represented by a works council, certain employees at Ismeca's facility La Chaux-de-Fonds, Switzerland are members of the micro-technology and Swiss watch trade union and certain employees in Ismeca's China operation belong to local trade unions. We have not experienced any work stoppages and consider our relations with our employees to be good. We believe that a great part of our future success will depend on our continued ability to attract and retain qualified employees. Competition for the services of certain personnel, particularly those with technical skills, is intense. There can be no assurance that we will be able to attract, hire, assimilate and retain a sufficient number of qualified employees.

Available Information

Our web site address is www.cohu.com. We make available free of charge, on or through our web site, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission. Our Code of Business Conduct and Ethics and other documents related to our corporate governance is also posted on our web site at www.cohu.com/investors/corporategovernance. Information contained on our web site is not deemed part of this report.

Item 1A. Risk Factors.

Set forth below and elsewhere in this report on Form 10-K and in other documents we file with the SEC, are risks and uncertainties that could cause actual results to differ materially from the results expressed or implied by the forward-looking statements contained in this Annual Report. Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below in addition to the other cautionary statements and risks described elsewhere, and the other information contained, in this Annual Report on Form 10-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on Cohu, our business, financial condition and results of operations could be seriously harmed. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment.

We are exposed to risks associated with acquisitions, investments and divestitures.

We have made, and may in the future make, acquisitions of, or significant investments in, businesses with complementary products, services and/or technologies such as our acquisition of Ismeca, which was completed on December 31, 2012. Acquisitions and investments involve numerous risks, including, but not limited to:

- difficulties and increased costs in connection with integration of the personnel, operations, technologies and products of acquired businesses;
- increasing the scope, geographic diversity and complexity of our business;
- diversion of management's attention from other operational matters;
- the potential loss of key employees or customers of Cohu or acquired businesses;
- lack of synergy, or the inability to realize expected synergies, resulting from the acquisition;
- failure to commercialize purchased technology; and
- the impairment of acquired intangible assets and goodwill that could result in significant charges to operating results in future periods.

We may be required to finance future acquisitions and investments through a combination of borrowings, proceeds from equity or debt offerings and the use of cash, cash equivalents and short-term investments.

With respect to divestitures, we may divest businesses that do not meet our strategic objectives, or do not meet our growth or profitability targets and may not be able to complete proposed divestitures on terms commercially favorable to us.

Mergers, acquisitions and investments are inherently risky and the inability to effectively manage these risks could materially and adversely affect our business, financial condition and results of operations. At December 29, 2012 we had goodwill and net purchased intangible assets balances of \$58.8 million and \$19.0 million, respectively. These amounts exclude the impact of our acquisition of Ismeca, which was completed subsequent to our fiscal year end. We expect our goodwill and purchased intangible asset balances will increase significantly as a result of this transaction.

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

We are a global corporation with offices and subsidiaries in certain foreign locations to support our sales and services to the global semiconductor industry and, as such, we face risks in doing business abroad that we do not face domestically. Certain aspects inherent in transacting business internationally could negatively impact our operating results, including:

- costs and difficulties in staffing and managing international operations;
- unexpected changes in regulatory requirements;
- difficulties in enforcing contractual and intellectual property rights;
- longer payment cycles;
- local political and economic conditions;
- potentially adverse tax consequences, including restrictions on repatriating earnings and the threat of "double taxation"; and
- fluctuations in currency exchange rates, which can affect demand and increase our costs.

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Additionally, managing geographically dispersed operations presents difficult challenges associated with organizational alignment and infrastructure, communications and information technology, inventory control, customer relationship management, terrorist threats and related security matters and cultural diversities. If we are unsuccessful in managing such operations effectively, our business and results of operations will be adversely affected.

The semiconductor industry we serve is highly volatile and unpredictable.

Visibility into our markets is limited. Our 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 we manufacture and market. We anticipate that the markets for newer generations of semiconductors and semiconductor equipment may also be subject to similar cycles and severe downturns. Any significant reductions in capital equipment investment by semiconductor integrated device manufacturers and test subcontractors will materially and adversely affect our business, financial position and results of operations. In addition, the volatile and unpredictable nature of semiconductor equipment demand has in the past and may in the future expose us to significant excess and obsolete and lower of cost or market inventory write-offs and reserve requirements. In 2012, 2011 and 2010, we recorded pre-tax inventory-related charges of approximately \$8.9 million, \$5.8 million, and \$1.7 million, respectively, primarily as a result of changes in customer forecasts.

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

The semiconductor test handler industry is intensely competitive and we face substantial competition from numerous companies throughout the world. The test handler industry, while relatively small in terms of worldwide market size compared to other segments of the semiconductor equipment industry, has several participants resulting in intense competitive pricing pressures. Future competition may include companies that do not currently supply test handlers. Some of our competitors are part of larger corporations that have substantially greater financial, engineering, manufacturing and customer support capabilities and provide more extensive product offerings. In addition, there are emerging semiconductor equipment companies that provide or may provide innovative technology incorporated in products that may compete successfully against our products. We expect our competitors to continue to improve the design and performance of their current products and introduce new products with improved performance capabilities. Our failure to introduce new products in a timely manner, the introduction by our competitors of products with perceived or actual advantages, or disputes over rights to use certain intellectual property or technology could result in a loss of our competitive position and reduced sales of, or margins on our existing products. We believe that competitive conditions in the semiconductor test handler market have intensified over the last several years. This intense competition has adversely impacted our product average selling prices and gross margins on certain products. If we are unable to reduce the cost of our existing products and successfully introduce new lower cost products we expect these competitive conditions to negatively impact our gross margin and operating results in the foreseeable future.

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

Semiconductor equipment and processes are subject to rapid technological change. We believe that our future success will depend in part on our ability to enhance existing products and develop new products with improved performance capabilities. We expect to continue to invest heavily in research and development and must manage product transitions successfully, as introductions of new products, including the products obtained in our acquisitions, may adversely impact sales and/or margins of existing products. In addition, the introduction of new products by us or by our competitors, the concentration of our revenues in a limited number of large customers, the migration to new semiconductor testing methodologies and the custom nature of our inventory parts increases the risk that our established products and related inventory may become obsolete, resulting in significant excess and obsolete inventory exposure. This increased exposure resulted in significant charges to operations during each of the years in the three-year period ended December 29, 2012. 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 equipment is an inherently complex process that involves a number of risks and uncertainties. These risks include potential problems in meeting customer acceptance and performance requirements, integration of the equipment 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 semiconductor equipment is heavily influenced by changes in integrated circuit assembly, test and final manufacturing processes and integrated circuit package design changes. We believe that the rate of change in such processes and integrated circuit packages is accelerating. As a result of these changes and other factors, assessing the market potential and commercial viability of handling, MEMS, system-level and burn-in test equipment is extremely difficult and subject to a great deal of risk. In addition, not all integrated circuit manufacturers employ the same manufacturing processes. Differences in such processes make it difficult to design standard test products that are capable of achieving broad market acceptance. As a result, we might not accurately assess the semiconductor industry's future equipment 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 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 equipment. In addition, as is common with semiconductor equipment, our after sale support and warranty costs have typically been significantly higher with new products 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.

Global economic conditions may have an impact on our business and financial condition in ways that we currently cannot predict.

Our operations and financial results depend on worldwide economic conditions and their impact on levels of business spending, which have deteriorated significantly in many countries and regions and may remain depressed for the foreseeable future. Continued uncertainties may reduce future sales of our products and services. While we believe we have a strong customer base and have experienced strong collections in the past, if the current market conditions deteriorate, we may experience increased collection times and greater write-offs, either of which could have a material adverse effect on our cash flow.

In addition, the tightening of credit markets and concerns regarding the availability of credit may make it more difficult for our customers to raise capital, whether debt or equity, to finance their purchases of capital equipment, including the products we sell. Delays in our customers' ability to obtain such financing, or the unavailability of such financing would adversely affect our product sales and revenues and therefore harm our business and operating results. We cannot predict the timing, duration of or effect on our business of the economic slowdown or the timing or strength of a subsequent recovery.

A limited number of customers account for a substantial percentage of our net sales.

A small number of customers of our semiconductor equipment segment have been responsible for a significant portion of our net sales. During the past five years, the percentage of our sales derived from these significant customers has varied greatly. Such variations are due to changes in the customers' business and their purchase of products from our competitors. It is common in the semiconductor test handler industry for customers to purchase equipment from more than one equipment supplier, increasing the risk that our competitive position with a specific customer may deteriorate. No assurance can be given that we will continue to maintain our competitive position with these or other significant customers. Furthermore, we expect the percentage of our revenues derived from significant customers will vary greatly in future periods. The loss of, or a significant reduction in, orders by these or other significant customers as a result of competitive products, market conditions including end market demand for our customers' products, outsourcing final semiconductor test to test subcontractors that are not our customers or other factors, would have a material adverse impact on our business, financial condition and results of operations. Furthermore, the concentration of our revenues in a limited number of large customers is likely to cause significant fluctuations in our future annual and quarterly operating results.

We do not currently participate in the memory test handler market.

Pick-and-place handlers used in memory test applications account for a significant portion of the worldwide test handler market. We do not currently participate in the memory market segment; therefore our total available sales market is limited.

If we cannot continue to develop, manufacture and market products and services that meet customer requirements for innovation and quality, our revenue and gross margin may suffer.

The process of developing new high technology products and services and enhancing existing products and services is complex, costly and uncertain, and any failure by us to anticipate customers' changing needs and emerging technological trends accurately could significantly harm our market share and results of operations. In addition, in the course of conducting our business, we must adequately address quality issues associated with our products and services, including defects in our engineering, design and manufacturing processes, as well as defects in third-party components included in our products. In order to address quality issues, we work extensively with our customers and suppliers and engage in product testing to determine the cause of quality problems and to determine appropriate solutions. Finding solutions to quality issues can be expensive and may result in additional warranty, replacement and other costs, adversely affecting our profits. In addition, quality issues can impair our relationships with new or existing customers and adversely affect our reputation, which could lead to a material adverse effect on our operating results.

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

The semiconductor equipment industry is characterized by dramatic and sometimes volatile changes in demand for its products. Changes in product demand result from a number of factors including the semiconductor industry's continually changing and unpredictable capacity requirements and changes in integrated circuit design and packaging. Sudden changes in demand for semiconductor equipment have a significant impact on our operations. Typically, we reduce and increase our workforce, particularly in manufacturing, based on customer demand for our products. These changes in workforce levels place enormous demands on our employees, operations and infrastructure since newly hired personnel rarely possess the expertise and level of experience of current employees. Additionally, these transitions divert management time and attention from other activities and adversely impact employee morale. We have in the past and may in the future experience difficulties, particularly in manufacturing, in training and recruiting the large number of additions to our workforce. The volatility in headcount and business levels, combined with the cyclical nature of the semiconductor industry, may require that we invest substantial amounts in new operational and financial systems, procedures and controls. We may not be able to successfully adjust our systems, facilities and production capacity to meet our customers' changing requirements. The inability to meet such requirements will have an adverse impact on our business, financial position and results of operations.

We utilize contract manufacturers and changes to those relationships, expected or unexpected, may result in delays or disruptions that could cause us to lose revenue and damage our customer relationships.

Our reliance on contract manufacturers gives us less control over the manufacturing process and exposes us to significant risks, including limited control over capacity, late delivery, quality and costs. In addition, it is time consuming and costly to qualify and implement additional contract manufacturer relationships. Therefore, if we should fail to effectively manage our contract manufacturer relationships or if one or more of them should experience delays, disruptions or quality control problems, or if we had to change or add additional contract manufacturers or contract manufacturing sites, our ability to ship products to our customers could be delayed. Also, the addition of manufacturing locations or contract manufacturers may increase the complexity of our supply chain management. We cannot be certain that existing or future contract manufacturers will be able to manufacture our products on a timely and cost-effective basis, or to our quality and performance specifications. If our contract manufacturers are unable to meet our manufacturing requirements in a timely manner, our ability to ship products and to realize the related revenues when anticipated could be materially affected.

The loss of key personnel could adversely impact our business.

Certain key personnel are critical to our business. Our future operating results depend substantially upon the continued service of our key personnel, many of whom are not bound by employment or non-competition agreements. Our future operating results also depend in significant part upon our ability to attract and retain qualified management, manufacturing, technical, engineering, marketing, sales and support personnel. Competition for qualified personnel, particularly those with technical skills, is intense, and we cannot ensure success in attracting or retaining qualified personnel. In addition, the cost of living in the San Diego, California,

Kolbermoor, Germany and La Chaux-de Fonds, Switzerland areas, where the majority of our development personnel are located, is high and we have had difficulty in recruiting prospective employees from other locations. There may be only a limited number of persons with the requisite skills and relevant industry experience to serve in these positions and it may become increasingly difficult for us to hire personnel over time. Our business, financial condition and results of operations could be materially adversely affected by the loss of any of our key employees, by the failure of any key employee to perform in his or her current position, or by our inability to attract and retain skilled employees.

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, we have experienced problems in obtaining adequate and reliable quantities of various parts and components from certain key suppliers. Our results of operations may be materially and adversely impacted if we do not receive sufficient parts to meet our requirements in a timely and cost effective manner.

Third parties may violate our proprietary rights or accuse us of infringing upon their proprietary rights.

We rely 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 expire due to patent life, or be challenged, invalidated or circumvented. 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 us to incur significant expenses. In the event of a successful claim of infringement against us and our failure or inability to license the infringed technology or to substitute similar non-infringing technology, our business, financial condition and results of operations could be adversely affected.

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

The majority of our export sales are made to destinations in Asia. Political or economic instability, particularly in Asia, may adversely impact the demand for capital equipment, including equipment of the type we manufacture and market. In addition, we face intense competition from a number of Asian suppliers that have certain advantages over U.S. suppliers, including us. These advantages include, among other things, proximity to customers, favorable tariffs and affiliation with significantly larger organizations. In addition, changes in the amount or price of semiconductors produced in Asia could impact the profitability or capital equipment spending programs of our foreign and domestic customers.

The occurrence of natural disasters in Asia and geopolitical instability caused by terrorist attacks and other threats may adversely impact our operations and sales.

Our Asian sales and service headquarters is located in Singapore and the majority of our sales are made to destinations in Asia. In addition, we have manufacturing plants in the Philippines, Malaysia and China. These regions are known for being vulnerable to natural disasters and other risks, such as earthquakes, tsunamis, fires, and floods, which at times have disrupted the local economies. A significant earthquake or tsunami could materially affect operating results. We are not insured for most losses and business interruptions of this kind, and do not presently have redundant, multiple site capacity in the event of a natural disaster. In the event of such disaster, our business would suffer. Furthermore, we have customers throughout the Middle East and terrorist attacks, protests or other threats in this region may cause geopolitical instability, which may have an adverse impact on our business, results of operations and financial condition.

Compliance with regulations may impact sales to foreign customers.

Certain products and services that we offer require compliance with United States and other foreign country export and other regulations. Compliance with complex U.S. and other foreign country laws and regulations that apply to our international sales activities increases our cost of doing business in international jurisdictions and could expose us or our employees to fines and penalties. These laws and regulations include import and export requirements, the U.S. State Department International Traffic in Arms Regulations (ITAR) and U.S. and other foreign country laws such as the Foreign Corrupt Practices Act (FCPA), and local laws prohibiting corrupt

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payments to governmental officials. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, prohibitions on the conduct of our business and damage to our reputation. Although we have implemented policies and procedures designed to ensure compliance with these laws, there can be no assurance that our employees, contractors or agents will not violate our policies, or that our policies will be effective in preventing all potential violations. Any such violations could include prohibitions on our ability to offer our products and services to one or more countries, and could also materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Further, defending against claims of violations of these laws and regulations, even if we are successful, could be time-consuming, result in costly litigation, divert management's attention and resources and cause us to incur significant expenses.

Our business and operations could suffer in the event of security breaches.

Attempts by others to gain unauthorized access to information technology systems are becoming more sophisticated and are sometimes successful. These attempts, which might be related to industrial or other espionage, include covertly introducing malware to our computers and networks and impersonating authorized users, among others. We seek to detect and investigate all security incidents and to prevent their recurrence, but in some cases, we might be unaware of an incident or its magnitude and effects. The theft, unauthorized use or publication of our intellectual property and/or confidential business information could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives or otherwise adversely affect our business. To the extent that any security breach results in inappropriate disclosure of our customers' or licensees' confidential information, we may incur liability as a result. In addition, we may be required to devote additional resources to the security of our information technology systems.

Our financial and operating results may vary and may fall below analysts' estimates, which may cause the price of our common stock to decline.

Our operating results may fluctuate from quarter to quarter due to a variety of factors including, but not limited to:

- cyclical nature of the semiconductor equipment industry;
- timing and amount of orders from customers and shipments to customers;
- inability to recognize revenue due to accounting requirements;
- inventory writedowns;
- inability to deliver solutions as expected by our customers; and
- intangible and deferred tax asset writedowns.

Due to these factors or other unanticipated events, quarter-to-quarter comparisons of our operating results may not be reliable indicators of our future performance. In addition, from time to time our quarterly financial results may fall below the expectations of the securities and industry analysts who publish reports on our company or of investors in general. This could cause the market price of our stock to decline, perhaps significantly.

We have experienced significant volatility in our stock price.

A variety of factors may cause the price of our stock to be volatile. In recent years, the stock market in general, and the market for shares of high-technology companies in particular, including ours, have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. During the last three years the price of our common stock has ranged from \$7.96 to \$17.35. The price of our stock may be more volatile than the stock of other companies due to, among other factors, the unpredictable and cyclical nature of the semiconductor industry, our significant customer concentration, intense competition in the test handler industry, our limited backlog and our relatively low daily stock trading volume. The market price of our common stock is likely to continue to fluctuate significantly in the future, including fluctuations related and unrelated to our performance.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

Certain information concerning our principal properties at December 31, 2012, identified by business segment is set forth below:

<u>Location</u>	<u>Approximate Sq. Footage</u>	<u>Ownership</u>
Poway, California (1) (2) (3) (4)	338,000	Owned
Kolbermoor, Germany (1)	40,000	Owned
Malacca, Malaysia (1) (5)	77,000	Leased
Calamba City, Laguna, Philippines (1)	51,000	Leased
La Chaux-de-Fonds, Switzerland (1) (5)	34,000	Leased
Singapore (1)	24,000	Leased
Suzhou, China (1) (5)	6,000	Leased
Heidenrod – Kemel, Germany (3)	5,000	Leased

-
- (1) Semiconductor equipment
- (2) Video cameras
- (3) Microwave Communications
- (4) Cohu Corporate offices
- (5) Locations were acquired on December 31, 2012 in conjunction with the purchase of Ismeca, see Note 2, “Subsequent Event”, included in Part IV, Item 15(a) of this Form 10-K.

In addition to the locations listed above, we lease other properties primarily for sales and service offices in various locations. We believe our facilities are suitable for their respective uses and are adequate for our present needs.

Item 3. Legal Proceedings.

From time-to-time we are involved in various legal proceedings, examinations by various tax authorities and claims that have arisen in the ordinary course of our businesses. Although the outcome of such legal proceedings, claims and examinations cannot be predicted with certainty, we do not believe any such matters exist at this time that will have a material adverse effect on our financial position or results of our operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Market Information

Cohu, Inc. stock is traded on the NASDAQ Global Select Market under the symbol “COHU”. The following table sets forth the high and low sales prices as reported on the NASDAQ Global Select Market during the last two years.

	Fiscal 2012		Fiscal 2011	
	High	Low	High	Low
First Quarter	\$14.16	\$10.39	\$17.35	\$13.10
Second Quarter	\$11.72	\$8.69	\$15.72	\$11.94
Third Quarter	\$10.80	\$8.23	\$13.65	\$9.67
Fourth Quarter	\$11.50	\$7.96	\$12.42	\$8.99

Holders

At February 11, 2013, Cohu had 572 stockholders of record.

Dividends

We have paid consecutive quarterly dividends since 1977 and, as discussed below, expect to continue doing so. Cash dividends, per share, declared in 2012 and 2011 were as follows:

	Fiscal 2012	Fiscal 2011
First Quarter	\$0.06	\$0.06
Second Quarter	\$0.06	\$0.06
Third Quarter	\$0.06	\$0.06
Fourth Quarter	\$0.06	\$0.06
Total	\$0.24	\$0.24

We intend to continue to pay quarterly dividends subject to capital availability and periodic determinations by our Board of Directors that cash dividends are in the best interests of our stockholders. Our dividend policy may be affected by, among other items, our views on potential future capital requirements, including those related to research and development, investments and acquisitions, legal risks and stock repurchases.

Equity Compensation Plan Information

The following table summarizes information with respect to equity awards under Cohu’s equity compensation plans at December 29, 2012 (*in thousands, except per share amounts*):

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) (1)	Weighted average exercise price of outstanding options, warrants and rights (b) (2)	Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) (3)
Equity compensation plans approved by security holders	3,857	\$ 12.62	2,417
Equity compensation plans not approved by security holders	—	—	—
	<u>3,857</u>	<u>\$ 12.62</u>	<u>2,417</u>

(1) Includes options, restricted stock units (RSUs) and performance stock units (PSUs) outstanding under Cohu’s equity incentive plans, as no stock warrants or other rights were outstanding as of December 29, 2012.

(2) The weighted average exercise price of outstanding options, warrants and rights does not take RSUs and PSUs into account as RSUs and PSUs have a de minimus purchase price.

(3) Includes 485,542 shares of common stock reserved for future issuance under the Cohu 1997 Employee Stock Purchase Plan.

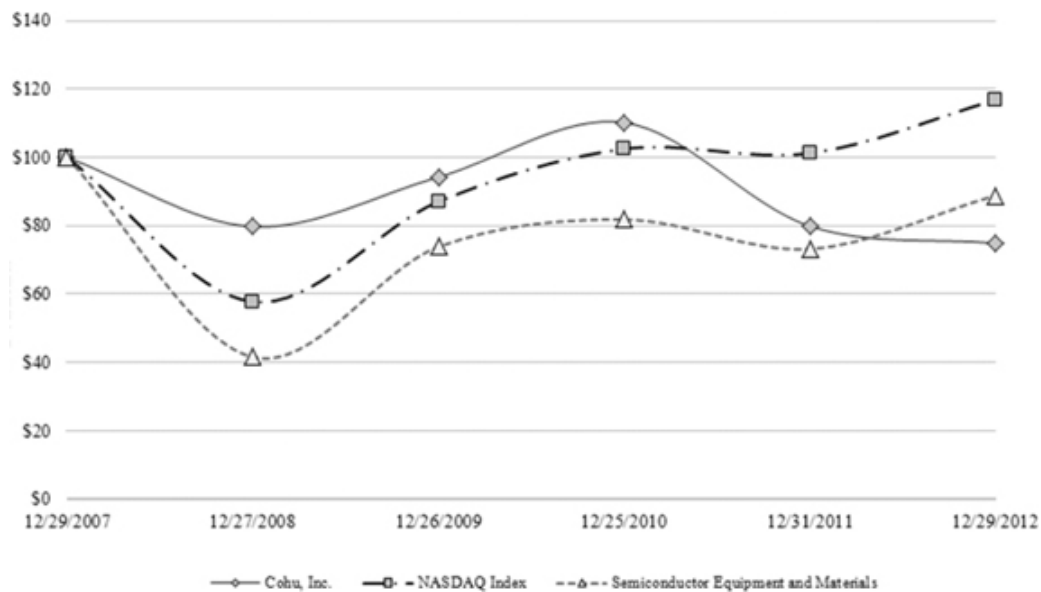
For further details regarding Cohu’s equity compensation plans, see Note 5, “Employee Benefit Plans”, included in Part IV, Item 15(a) of this Form 10-K.

Comparative Stock Performance Graph

The information contained in this Stock Performance Graph section shall not be deemed to be “soliciting material” or “filed” with the SEC or subject to the liabilities of Section 18 of the Exchange Act except to the extent that Cohu specifically incorporates it by reference into a document filed under the Securities Act or the Exchange Act.

The graph below compares the cumulative total stockholder return on the common stock of Cohu for the last five fiscal years with the cumulative total return on a Peer Group Index and a NASDAQ Market Index over the same period (assuming the investment of \$100 in Cohu’s common stock, Peer Group Index and NASDAQ Market Index on December 29, 2007 and reinvestment of all dividends). The Peer Group Index set forth on the Performance Graph is the Morningstar Semiconductor Equipment and Materials Index. The Morningstar Semiconductor Equipment and Materials Index is comprised of approximately 40 publicly-held semiconductor equipment and other related companies. Historical stock price performance is not necessarily indicative of future stock price performance.

**COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN AMONG COHU INC.,
NASDAQ MARKET INDEX, SEMICONDUCTOR EQUIPMENT AND MATERIALS INDEX**



	2007	2008	2009	2010	2011	2012
Cohu, Inc.	\$100	\$80	\$94	\$110	\$ 80	\$ 75
NASDAQ Index	\$100	\$58	\$87	\$102	\$101	\$117
Peer Group	\$100	\$42	\$74	\$ 82	\$ 73	\$ 89

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Item 6. Selected Financial Data.

The following selected financial data should be read in conjunction with Cohu's Consolidated Financial Statements and Notes thereto included in Part IV, Item 15(a) and with Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Part II, Item 7. In December, 2008, we purchased Rasco. The results of Rasco's operations have been included in our consolidated financial statements since that date.

All amounts presented below exclude any impact from the acquisition of Ismeca, which was completed on December 31, 2012, subsequent to our current fiscal year end. See Note 2, "Subsequent Event", included in Part IV, Item 15(a) of this Form 10-K.

Years Ended, <i>(in thousands, except per share data)</i>	Dec. 29 2012	Dec. 31 2011 ⁽¹⁾	Dec. 25 2010	Dec. 26 2009	Dec. 27 2008
Consolidated Statement of Operations Data:					
Net sales	\$ 221,162	\$ 308,968	\$ 322,667	\$ 171,261	\$ 199,659
Net income (loss) ⁽²⁾	\$ (12,243)	\$ 15,719	\$ 24,644	\$ (28,168)	\$ (5,443)
Net income (loss) per common share – basic	\$ (0.50)	\$ 0.65	\$ 1.04	\$ (1.20)	\$ (0.23)
Net income (loss) per common share – diluted	\$ (0.50)	\$ 0.64	\$ 1.02	\$ (1.20)	\$ (0.23)
Cash dividends per share, paid quarterly	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24
Consolidated Balance Sheet Data:					
Total consolidated assets	\$ 334,873	\$ 361,608	\$ 366,043	\$ 330,118	\$ 344,169
Working Capital	\$ 184,703	\$ 191,945	\$ 168,683	\$ 139,597	\$ 155,589

(1) The year ended December 31, 2011 consists of 53 weeks. All other years are comprised of 52 weeks.

(2) The year ended December 26, 2009 includes a charge of \$19.6 million for an increase in the valuation allowance against our deferred tax assets.

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

OVERVIEW

Cohu operates in three business segments. Our primary business is the development, manufacture, sale and servicing of test handling, burn-in, thermal sub-systems and MEMS test solutions for the global semiconductor industry through our wholly-owned subsidiaries, Delta Design, Inc., Rasco GmbH and Ismeca Semiconductor Holding SA, which was acquired on December 31, 2012. This business is significantly dependent on capital expenditures by semiconductor manufacturers and test subcontractors, which in turn is dependent on the current and anticipated market demand for semiconductors that is subject to cyclical trends. We expect that the semiconductor equipment industry will continue to be cyclical and volatile in part because consumer electronics, the principal end market for integrated circuits, is a highly dynamic industry and demand is difficult to accurately predict. Our other businesses produce mobile microwave communications equipment (Broadcast Microwave Services, Inc.) and video cameras and accessories (Cohu Electronics Division).

During 2012 orders for back-end semiconductor equipment, as reported by Semiconductor Equipment and Materials International (SEMI), trended downward during the second half of the year due to slowing semiconductor sales as a result of continued weak global macroeconomic conditions. Lower demand for semiconductors results in equipment utilization on our customers' test floors below the level requiring capacity expansion. Orders reported by our semiconductor equipment segment decreased 12% sequentially in the fourth quarter of 2012. Despite the currently weak macro-economic environment and near-term uncertainty, we continue to be optimistic about the long-term prospects for the semiconductor equipment industry due to expanding applications, growing integrated circuit content in consumer, industrial and automotive applications, and the projected adoption of high brightness LEDs for the general lighting market.

On December 31, 2012, subsequent to our fiscal year that ended December 29, 2012, we completed the acquisition of Ismeca, which designs, manufactures and sells turret-based test handling and back-end finishing equipment for integrated circuits, LEDs and discrete components. With the acquisition of Ismeca we expanded our served market and increased our market share in the semiconductor test handling market. The acquisition of Ismeca also expanded our portfolio of test handling solutions and provides us with an entry into the LED equipment market, which is forecasted to grow as LED technology is adopted for general lighting. This management's discussion and analysis of financial condition and results of operations excludes any impact from Ismeca.

Our non-semiconductor equipment businesses comprised approximately 16% of our consolidated revenues during the three-year period ended December 29, 2012 and were approximately 19% for the year ended December 29, 2012. Our microwave communications equipment business develops, manufactures and sells mobile microwave communications equipment, antenna systems and associated equipment. These products are used in the transmission of video, audio, and telemetry. Applications for these microwave data-links include unmanned aerial vehicles (“UAVs”), public safety, security, surveillance, and electronic news gathering. Customers for these products are government agencies, public safety organizations, UAV program contractors, television broadcasters, and other commercial entities. Opportunities for our microwave communications equipment business continue to expand in the surveillance, UAV and law enforcement markets.

Our video camera segment develops, manufactures and sells a wide variety of video cameras and related products, specializing in video solutions for traffic control and management, security/surveillance, military, scientific imaging and machine vision. Customers for these products are distributed among corporate end-users, state and federal government agencies, original equipment manufacturers, system integrators and value-added resellers.

Application of Critical Accounting Estimates and Policies

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience, forecasts and on various other assumptions that are believed to be reasonable under the circumstances, however actual results may differ from those estimates under different assumptions or conditions. The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our financial statements. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Our critical accounting estimates that we believe are the most important to an investor’s understanding of our financial results and condition and require complex management judgment include:

- revenue recognition, including the deferral of revenue on sales to customers, which impacts our results of operations;
- estimation of valuation allowances and accrued liabilities, specifically product warranty, inventory reserves and allowance for bad debts, which impact gross margin or operating expenses;
- the recognition and measurement of current and deferred income tax assets and liabilities, unrecognized tax benefits and the valuation allowance on deferred tax assets, which impact our tax provision;
- the assessment of recoverability of long-lived assets including goodwill and other intangible assets, which primarily impacts gross margin or operating expenses if we are required to record impairments of assets or accelerate their depreciation; and
- the valuation and recognition of share-based compensation, which impacts gross margin, research and development expense, and selling, general and administrative expense.

Below, we discuss these policies further, as well as the estimates and judgments involved. We also have other policies that we consider key accounting policies; however, these policies typically do not require us to make estimates or judgments that are difficult or subjective.

Revenue Recognition: We generally recognize revenue upon shipment and title passage for established products (i.e., those that have previously satisfied customer acceptance requirements) that provide for full payment tied to shipment. Revenue for products that have not previously satisfied customer acceptance requirements or from sales where customer payment dates are not determinable is recognized upon customer acceptance. For arrangements containing multiple elements initiated prior to December 26, 2010, the first day of our fiscal 2011, the revenue relating to the undelivered elements is deferred at their estimated relative fair values until delivery of the deferred elements. For arrangements initiated or materially modified subsequent to December 26, 2010 containing multiple elements, the revenue relating to the undelivered elements is deferred using the relative selling price method utilizing estimated sales prices until delivery of the deferred elements.

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We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or adjustment.

Accounts Receivable: We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

Warranty: We provide for the estimated costs of product warranties in the period sales are recognized. Our warranty obligation estimates are affected by historical product shipment levels, product performance, and material and labor costs incurred in correcting product performance problems. Should product performance, material usage or labor repair costs differ from our estimates, revisions to the estimated warranty liability would be required.

Inventory: The valuation of inventory requires us to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The determination of obsolete or excess inventory requires us to estimate the future demand for our products. The demand forecast is a direct input in the development of our short-term manufacturing plans. We record valuation reserves on our inventory for estimated excess and obsolete inventory and lower of cost or market concerns equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future product demand, market conditions and product selling prices. If future product demand, market conditions or product selling prices are less than those projected by management or if continued modifications to products are required to meet specifications or other customer requirements, increases to inventory reserves may be required, which would have a negative impact on our gross margin.

Income Taxes: We estimate our liability for income taxes based on the various jurisdictions where we conduct business. This requires us to estimate our (i) current taxes; (ii) temporary differences that result from differing treatment of certain items for tax and accounting purposes and (iii) unrecognized tax benefits. Temporary differences result in deferred tax assets and liabilities that are reflected in the consolidated balance sheet. The deferred tax assets are reduced by a valuation allowance if, based upon all available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Establishing, reducing or increasing a valuation allowance in an accounting period generally results in an increase or decrease in tax expense in the statement of operations. We must make significant judgments to determine the provision for income taxes, deferred tax assets and liabilities, unrecognized tax benefits and any valuation allowance to be recorded against deferred tax assets. Our gross deferred tax asset balance as of December 29, 2012 was approximately \$30.4 million, with a valuation allowance of approximately \$24.9 million. Our deferred tax assets consist primarily of reserves and accruals that are not yet deductible for tax and tax credit and net operating loss carryforwards.

Goodwill, Purchased Intangible Assets and Other Long-lived Assets: We evaluate goodwill for impairment annually and when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimated the fair values of our reporting units primarily using the income approach valuation methodology that includes the discounted cash flow method, taking into consideration the market approach and certain market multiples as a validation of the values derived using the discounted cash flow methodology. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on customer forecasts, industry trade organization data and general economic conditions.

We conduct our annual impairment test as of October 1st of each year, and have determined there is no impairment as of October 1, 2012. Other events and changes in circumstances may also require goodwill to be tested for impairment between annual measurement dates. While a decline in stock price and market capitalization is not specifically cited as a goodwill impairment indicator, a company's stock price and market capitalization should be considered in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. Additionally, a significant decline in a company's stock price may suggest that an adverse change in the business climate may have caused the fair value of one or more reporting units to fall below their carrying value. The financial and credit market volatility directly impacts our fair value measurement through our stock price that we use to determine our market capitalization. During times of

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volatility, significant judgment must be applied to determine whether credit or stock price changes are a short-term swing or a longer-term trend. As of December 29, 2012 we do not believe there have been any events or circumstances that would require us to perform an interim goodwill impairment review, however, a sustained decline in Cohu's market capitalization below its book value could lead us to determine, in a future period, that an interim goodwill impairment review is required and may result in an impairment charge, which would have a negative impact on our results of operations.

Long-lived assets, other than goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or any other significant adverse change that would indicate that the carrying amount of an asset or group of assets may not be recoverable. For long-lived assets, impairment losses are only recorded if the asset's carrying amount is not recoverable through its undiscounted, probability-weighted future cash flows. We measure the impairment loss based on the difference between the carrying amount and estimated fair value.

Contingencies: We are subject to certain contingencies that arise in the ordinary course of our businesses which require us to assess the likelihood that future events will confirm the existence of a loss or an impairment of an asset. If a loss or asset impairment is probable and the amount of the loss or impairment is reasonably estimable, we accrue a charge to operations in the period such conditions become known.

Share-based Compensation: Share-based compensation expense related to stock options is recorded based on the fair value of the award on its grant date, which we estimate using the Black-Scholes valuation model. Share-based compensation expense related to restricted stock unit awards is calculated based on the market price of our common stock on the grant date, reduced by the present value of dividends expected to be paid on our common stock prior to vesting of the restricted stock unit.

Recent Accounting Pronouncements

For a description of accounting changes and recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see Note 1, "Recent Accounting Pronouncements" in Part IV, Item 15(a) of this Form 10-K.

RESULTS OF OPERATIONS

The following table summarizes certain operating data from continuing operations as a percentage of net sales in each of the last three years.

	2012	2011	2010
Net sales	100.0%	100.0%	100.0%
Cost of sales	(69.3)	(67.6)	(65.9)
Gross margin	30.7	32.4	34.1
Research and development	(16.4)	(11.7)	(11.2)
Selling, general and administrative	(20.7)	(15.1)	(13.7)
Income (loss) from operations	(6.4)%	5.6%	9.2%

2012 Compared to 2011

Net Sales

During 2012, our consolidated net sales were approximately \$221.2 million, a decrease of 28.4% from the prior year. Sales of semiconductor equipment decreased 31.2% from \$260.6 million to \$179.4 million and accounted for 81.1% of consolidated net sales in 2012 versus 84.4% in 2011. Sales of our semiconductor equipment segment decreased in 2012 compared to the corresponding prior year period due to continued global macro-economic weakness and political uncertainty which has resulted in reduced demand for semiconductors. This, in turn, resulted in higher inventory of integrated circuits leading many customers to operate at equipment utilization levels that do not require purchases of new systems.

Sales of microwave communications equipment accounted for approximately \$26.9 million or 12.2% of consolidated net sales in 2012 and decreased 10.4% when compared to 2011. The decrease in business volume within our microwave equipment segment during 2012 resulted from customer order delays for equipment to be used in government agency related security and surveillance infrastructure projects.

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Sales of video cameras accounted for 6.7% of consolidated net sales in 2012 and decreased \$3.5 million or 19.1% when compared to 2011. The decrease in business volume within our video camera segment during 2012 resulted primarily from delays in obtaining customer orders for equipment to be used in traffic related public infrastructure projects.

Gross Margin

Gross margin consists of net sales less cost of sales. Cost of sales consists primarily of the cost of materials, assembly and test labor and overhead from operations. Our gross margin can fluctuate due to a number of factors, including, but not limited to, the mix of products sold, product support costs, inventory reserve adjustments and utilization of manufacturing capacity. Our gross margin, as a percentage of net sales, decreased to 30.7% in 2012 from 32.4% in 2011, due to unfavorable product mix, increased inventory reserve charges and lower sales volume.

Our gross margin has been impacted by charges to cost of sales related to excess, obsolete and lower of cost or market inventory issues. We compute the majority of our excess and obsolete inventory reserve requirements using a one-year inventory usage forecast. During 2012 and 2011, we recorded net charges to cost of sales of approximately \$8.9 million and \$5.8 million, respectively, for excess and obsolete inventory. While we believe our reserves for excess and obsolete inventory and lower of cost or market concerns are adequate to cover known exposures at December 29, 2012, reductions in customer forecasts or continued modifications to products, as a result of our failure to meet specifications or other customer requirements, may result in additional charges to operations that could negatively impact our gross margin in future periods.

Research and Development Expense (“R&D Expense”)

R&D expense consists primarily of salaries and related costs of employees engaged in ongoing research, product design and development activities, costs of engineering materials and supplies and professional consulting expenses. During both 2012 and 2011 R&D expense was \$36.2 million and represented 16.4% of net sales in 2012 compared to 11.7% in 2011.

Selling, General and Administrative Expense (“SG&A Expense”)

SG&A expense consists primarily of salaries and benefit costs of employees, commission expense for independent sales representatives, product promotion and costs of professional services. SG&A expense as a percentage of net sales increased to 20.7% in 2012, from 15.1% in 2011, decreasing in absolute dollars from \$46.6 million in 2011 to \$45.9 million in 2012 due to a decrease in variable selling expenses as a result of lower business volume across our business segments. Additionally, during 2012 we incurred approximately \$2.3 million in costs associated with the acquisition of Ismecca.

Interest and other, net

Interest and other, net was approximately \$1.0 million and \$0.4 million in 2012 and 2011, respectively. Interest and other income in 2012 includes a gain on the sale of a facility totaling \$0.7 million related to our metal detection equipment segment, which was divested in 2006.

Income Taxes

The provision (credit) for income taxes expressed as a percentage of pre-tax income or loss was (6.7%) in 2012 and 11.6% in 2011. The provision (credit) for income taxes for the years ended December 29, 2012 and December 31, 2011 differs from the U.S. federal statutory rate primarily due to changes in the valuation allowance on our deferred tax assets, foreign income taxed at different rates and other factors.

Companies are required to assess whether a valuation allowance should be recorded against their deferred tax assets (“DTAs”) based on the consideration of all available evidence, using a “more likely than not” realization standard. The four sources of taxable income that must be considered in determining whether DTAs will be realized are, (1) future reversals of existing taxable temporary differences (i.e. offset of gross deferred tax assets against gross deferred tax liabilities); (2) taxable income in prior carryback years, if carryback is permitted under the tax law; (3) tax planning strategies and (4) future taxable income exclusive of reversing temporary differences and carryforwards.

In assessing whether a valuation allowance is required, significant weight is to be given to evidence that can be objectively verified. We have evaluated our DTAs each reporting period, including an assessment of our cumulative income or loss over the prior three-year period and future periods, to determine if a valuation allowance was required. A significant negative factor in our assessment was Cohu’s three-year cumulative U.S. loss history at the end of the 2009 and 2010 fiscal year periods.

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After a review of the four sources of taxable income described above and in view of our three-year cumulative U.S. loss, we recorded an increase in our valuation allowance on U.S. DTAs, with a corresponding charge to our income tax provision, of approximately \$19.6 million in the second quarter of fiscal 2009.

Notwithstanding our 36-month domestic, cumulative GAAP pretax income of approximately \$5.0 million at the end of 2012, with (i) our operating loss in 2012, (ii) weak business conditions in our primary business segment and (iii) our significant gross deferred tax assets we were unable to conclude at December 29, 2012 that it was “more likely than not” that our DTAs would be realized and will only reverse the valuation allowance and reinstate DTAs to the extent we accrue taxes on future income. We will evaluate the realizability of our DTAs at the end of each quarterly reporting period in 2013 and should circumstances change it is possible the remaining valuation allowance, or a portion thereof, will be reversed during 2013.

Our valuation allowance on DTAs at December 29, 2012 and December 31, 2011 was approximately \$24.9 million and \$22.4 million, respectively. The remaining gross DTAs for which a valuation allowance was not recorded are realizable through future reversals of existing taxable temporary differences or loss carryback. As the realization of DTAs is determined by tax jurisdiction, the significant deferred tax liability recorded as part of the 2008 acquisition of Rasco, a German corporation, was not a source of taxable income in assessing the realization of our DTAs in the U.S.

The American Taxpayer Relief Act of 2012, which reinstated the United States federal research and development tax credit retroactively from January 1, 2012 through December 31, 2012, was not enacted into law until the first quarter of 2013. Therefore, the expected tax benefit, if any, resulting from such reinstatement for fiscal 2012 will not be reflected in the Company’s income tax provision until 2013.

For a full reconciliation of our effective tax rate to the U.S. federal statutory rate and further explanation of our provision for income taxes, see Note 6, “Income Taxes”, included in Part IV, Item 15(a) of this Form 10-K, which is incorporated herein by reference.

As a result of the factors set forth above, our net loss was \$12.2 million in 2012, compared to net income of \$15.7 million in 2011.

2011 Compared to 2010

Net Sales

During 2011, our consolidated net sales were approximately \$309.0 million, a decrease of 4.2% from the prior year. Sales of semiconductor equipment decreased 4.7% from \$273.6 million to \$260.6 million and accounted for 84.4% of consolidated net sales in 2011 versus 84.8% in 2010. During 2011, sales of our semiconductor equipment business were impacted by excess semiconductor inventory, manufacturing overcapacity and slowing semiconductor demand due to continued economic weakness that resulted in lower equipment utilization and reduced orders during the second half of the year. Conversely, in 2010 our sales of semiconductor equipment benefitted from high rates of equipment utilization which required our customers to invest in additional capacity. Our sales in 2010 also benefitted from market share gains and capacity additions on new test floors.

Sales of microwave communications equipment accounted for approximately \$30.0 million or 9.7% of consolidated net sales in 2011 and decreased 5.5% when compared to 2010. The sales decrease during 2011 was due to lower sales of antenna systems to customers in the government surveillance market resulting primarily from a delay in the receipt of certain customer orders that were delayed to fiscal 2012.

Sales of video cameras accounted for 5.9% of consolidated net sales in 2011 and increased \$1.0 million or 5.5% when compared to 2010. The increase in 2011 sales resulted from increased demand for high definition traffic monitoring products.

Gross Margin

Our gross margin, as a percentage of net sales, decreased to 32.4% in 2011 from 34.1% in 2010, due to unfavorable product mix and lower sales volume. Our gross margin has been impacted by charges to cost of sales related to excess, obsolete and lower of cost or market inventory issues. During 2011 and 2010, we recorded net charges to cost of sales of approximately \$5.8 million and \$1.7 million, respectively, for excess and obsolete inventory

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R&D Expense

During both 2011 and 2010 R&D expense was \$36.2 million and represented 11.7% of net sales in 2011 compared to 11.2% in 2010.

SG&A Expense

SG&A expense as a percentage of net sales increased to 15.1% in 2011, from 13.7% in 2010, increasing to \$46.6 million in 2011 from \$44.1 million in 2010 due primarily to higher labor costs across our business segments.

Interest and other, net

Interest and other, net was approximately \$0.4 million and \$0.6 million in 2011 and 2010, respectively. Our interest income was lower in 2011 due to lower interest rates.

Income Taxes

The provision for income taxes expressed as a percentage of pre-tax income or loss was 11.6% in 2011 and 18.5% in 2010. The provision for income taxes for the years ended December 31, 2011 and December 25, 2010 differs from the U.S. federal statutory rate primarily due to decreases in the valuation allowance on our deferred tax assets, foreign income taxed at different rates and other factors.

As a result of the factors set forth above, our net income was \$15.7 million in 2011, compared to net income of \$24.6 million in 2010.

LIQUIDITY AND CAPITAL RESOURCES

Our business is dependent on capital expenditures by semiconductor manufacturers and test subcontractors that are, in turn, dependent on the current and anticipated market demand for semiconductors. The cyclical and volatile nature of demand for semiconductor equipment, our primary industry, makes estimates of future revenues, results of operations and net cash flows difficult.

Our primary historical source of liquidity and capital resources has been cash flow generated by our operations and we manage our businesses to maximize operating cash flows as our primary source of liquidity. We use cash to fund growth in our operating assets and to fund new products and product enhancements primarily through research and development. As of December 29, 2012, \$85.1 million of our cash and cash equivalents was held by our foreign subsidiaries, of which, \$54.5 million, excluding cash acquired, was used on December 31, 2012 for the acquisition of Ismeca. See Note 2, "Subsequent Event", included in Part IV, Item 15(a) of this Form 10-K. If these funds are needed for our operations in the U.S., we may be required to accrue and pay U.S. taxes or foreign withholding taxes if we repatriate these funds. Our intent is to indefinitely reinvest these funds in our foreign operations and we have no current plans that would require us to repatriate these funds to the U.S.

Liquidity

Working Capital: The following summarizes our cash, cash equivalents, short-term investments and working capital at December 29, 2012 and December 31, 2011:

<i>(in thousands)</i>	2012	2011	Increase (Decrease)	Percentage Change
Cash, cash equivalents and short-term investments	\$ 110,229	\$ 105,002	\$ 5,227	5%
Working capital	\$ 184,703	\$ 191,945	\$ (7,242)	(4)%

The working capital amounts presented above excludes the impact of the acquisition of Ismeca on December 31, 2012.

Cash Flows

Operating Activities: Cash generated from operating activities consists of net income or loss, adjusted for non-cash expenses and changes in operating assets and liabilities. Non-cash items include depreciation and amortization, share-based compensation expense and deferred income taxes. Our net cash flows provided from operating activities in 2012 totaled \$13.2 million compared to \$12.2 million in 2011. The increase in cash provided by operating activities was a result of improved inventory and supply chain management in our semiconductor equipment segment and the collection of customer receivables coupled with decreased business

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volume across our segments. Cash provided by operating activities was impacted by changes in current assets and liabilities and included decreases in: accounts receivable of \$5.0 million; inventory of \$19.9 million; accounts payable of \$5.5 million and accrued compensation, warranty and other liabilities of \$6.5 million. The decreases in accounts receivable and inventory were due to lower business volume and improved inventory and supply chain management in our semiconductor equipment segment. The decrease in accounts payable was a result of lower business volume and the timing of cash payments. The decrease in accrued compensation, warranty and other liabilities was due to decreased business volume and improvements in equipment reliability primarily within our semiconductor equipment segment.

Investing Activities: Investing cash flows consist primarily of cash used for capital expenditures in support of our businesses, proceeds from investment maturities and cash used for purchases of investments and business acquisitions. Our net cash used for investing activities in 2012 totaled \$41.2 million and was primarily the result of \$84.8 million in net proceeds from sales and maturities of short-term investments, offset by \$40.5 million in cash used for purchases of short-term investments. We invest our excess cash, in an attempt to seek the highest available return while preserving capital, in short-term investments since excess cash is only temporarily available and may be required for a business-related purpose. Other expenditures in 2012 included purchases of property, plant and equipment of \$3.3 million. The purchases of property, plant and equipment were primarily made to support activities in our semiconductor equipment and microwave communications equipment businesses.

Financing Activities: Cash provided by financing activities consisted of net proceeds from the issuance of common stock under our equity incentive and employee stock purchase plans, which totaled \$1.6 million during 2012. We issue stock options and maintain an employee stock purchase plan as components of our overall employee compensation. Cash used in financing activities consisted of amounts distributed to our stockholders in the form of cash dividends. We paid dividends totaling \$7.3 million, or \$0.30 per common share, during 2012. On January 30, 2013, we announced a cash dividend of \$0.06 per share on our common stock, payable on, April 19, 2013 to stockholders of record as of March 5, 2013. We intend to continue to pay quarterly dividends subject to capital availability and periodic determinations by our Board of Directors that cash dividends are in the best interests of our stockholders.

Capital Resources

We have a secured letter of credit facility (the “Secured Facility”) under which Bank of America, N.A., has agreed to administer the issuance of letters of credit on behalf of Cohu and our subsidiaries. The Secured Facility requires us to maintain deposits of cash or other approved investments, which serve as collateral, in amounts that approximate our outstanding standby letters of credit. As of December 29, 2012, we had approximately \$0.6 million of standby letters of credit outstanding.

We expect that we will continue to make capital expenditures to support our business and we anticipate that present working capital will be sufficient to meet our operating requirements for at least the next twelve months.

Contractual Obligations

The following table summarizes our significant contractual obligations at December 29, 2012, and the effect such obligations are expected to have on our liquidity and cash flows in future periods. This table excludes amounts already recorded on our balance sheet as current liabilities at December 29, 2012 as well as contractual obligations related to the December 31, 2012 Ismeca acquisition. Amounts excluded include our liability for unrecognized tax benefits that totaled approximately \$6.1 million at December 29, 2012. We are currently unable to provide a reasonably reliable estimate of the amount or period(s) the cash settlement of this liability may occur.

(in thousands)	2013	2014	2015	2016	2017	Thereafter	Total
Non-cancelable operating leases	\$ 993	\$ 596	\$ 72	\$ —	\$ —	\$ —	\$ 1,661

Commitments to contract manufacturers and suppliers. From time to time, we enter into commitments with our suppliers to purchase inventory and contract manufacturers to provide manufacturing services for our products at fixed prices or in guaranteed quantities. During the normal course of business, we issue purchase orders with estimates of our requirements several months ahead of the delivery dates. However, our agreements with these suppliers usually allow us the option to reschedule or adjust our requirements based on our business needs. Typically purchase orders outstanding with delivery dates within 30 days are non-cancelable. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders

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may represent authorizations to purchase rather than binding agreements. We typically do not have significant agreements for the purchase of raw materials or other goods specifying minimum quantities or set prices that exceed our expected requirements for the next six to twelve months.

Off-Balance Sheet Arrangements. During the ordinary course of business, we provide standby letters of credit instruments to certain parties as required. As of December 29, 2012, the maximum potential amount of future payments that we could be required to make under these standby letters of credit was approximately \$0.6 million. No liability has been recorded in connection with these arrangements beyond those required to appropriately account for the underlying transaction being guaranteed. Based on historical experience and information currently available, we do not believe it is probable that any amounts will be required to be paid under these arrangements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Investment and Interest Rate Risk.

At December 29, 2012, our investment portfolio included short-term, fixed-income investment securities with a fair value of approximately \$7.4 million. These securities are subject to interest rate risk and will likely decline in value if interest rates increase. Our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. As we classify our short-term securities as available-for-sale, no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary. Due to the relatively short duration of our investment portfolio, an immediate ten percent change in interest rates would have no material impact on our financial condition or results of operations.

We evaluate our investments periodically for possible other-than-temporary impairment by reviewing factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and our ability and intent to hold the investment for a period of time sufficient for anticipated recovery of market value.

Foreign Currency Exchange Risk.

We conduct business on a global basis in a number of major international currencies. As such, we are exposed to adverse as well as beneficial movements in foreign currency exchange rates. The majority of our sales are denominated in U.S. dollars except for certain of our revenues that are denominated in Euros. Certain expenses incurred by our non-U.S. operations, such as employee payroll and benefits as well as some raw materials purchases and other expenses are denominated and paid in local currency.

We considered a hypothetical ten percent adverse movement in foreign exchange rates to the underlying exposures described above and believe that these hypothetical market movements would not have a material effect on our consolidated financial position, results of operations or cash flows.

Item 8. Financial Statements and Supplementary Data.

The information required by this Item is included in Part IV, Item 15(a).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures – Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of December 29, 2012, the end of the period covered by this annual report.

Management’s Annual Report on Internal Control Over Financial Reporting – Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 29, 2012.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has also audited the effectiveness of our internal control over financial reporting as of December 29, 2012, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Cohu, Inc.

We have audited Cohu, Inc.'s internal control over financial reporting as of December 29, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Cohu, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Cohu, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 29, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Cohu, Inc. as of December 29, 2012 and December 31, 2011, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 29, 2012 of Cohu, Inc. and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Diego, California
February 28, 2013

Changes in Internal Control Over Financial Reporting – There have been no changes in our internal control over financial reporting that occurred during the fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information under the heading “Executive Officers of the Registrant” in Part I, Item 1 of this Form 10-K is incorporated by reference in this section.

The other information required by this item is hereby incorporated by reference to the Company’s definitive proxy statement, which will be filed with the Securities and Exchange Commission (“SEC”) within 120 days after the close of fiscal 2012.

Code of Business Conduct and Code of Ethics

Cohu has adopted a code of business conduct and ethics for directors, officers and employees. The code is available on the Investor Relations section of our website at www.cohu.com.

We intend to make all required disclosures concerning any amendments to, or waivers from, our code of ethics on our website.

Corporate Governance Guidelines and Certain Committee Charters

Cohu has adopted Corporate Governance Guidelines as well as charters for its Audit, Compensation and Nominating and Governance Committees. These documents are available on the Investor Relations section of our website at www.cohu.com.

The information on our website is not incorporated by reference in or considered to be a part of this Annual Report on Form 10-K.

Item 11. Executive Compensation.

Information regarding Executive Compensation is hereby incorporated by reference to the Company’s definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2012.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information regarding Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters is hereby incorporated by reference to the Company’s definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2012.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information regarding Certain Relationships and Related Transactions, and Director Independence is hereby incorporated by reference to the Company’s definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2012.

Item 14. Principal Accounting Fees and Services.

Information regarding the Principal Accounting Fees and Services is hereby incorporated by reference to the Company’s definitive proxy statement, which will be filed with the SEC within 120 days after the close of fiscal 2012.

PART IV**Item 15. Exhibits, Financial Statement Schedules.**

(a) The following documents are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K.

(1) Financial Statements

The following Consolidated Financial Statements of Cohu, Inc., including the report thereon of Ernst & Young LLP, are included in this Annual Report on Form 10-K beginning on page 31:

<u>Description</u>	<u>Form 10-K Page Number</u>
Consolidated Balance Sheets at December 29, 2012 and December 31, 2011	31
Consolidated Statements of Operations for each of the three years in the period ended December 29, 2012	32
Consolidated Statements of Comprehensive Income (Loss) for each of the three years in the period ended December 29, 2012	33
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 29, 2012	34
Consolidated Statements of Cash Flows for each of the three years in the period ended December 29, 2012	35
Notes to Consolidated Financial Statements	36
Report of Independent Registered Public Accounting Firm	54

(2) Financial Statement Schedule

Schedule II – Valuation and Qualifying Accounts	58
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All other financial statement schedules have been omitted because the required information is not applicable or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

(3) Exhibits

The exhibits listed under Item 15(b) hereof are filed with, or incorporated by reference into, this Annual Report on Form 10-K.

COHU, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)

	December 29, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 102,808	\$ 53,262
Short-term investments	7,421	51,740
Accounts receivable, net	36,986	41,922
Inventories:		
Raw materials and purchased parts	37,140	47,186
Work in process	14,958	15,504
Finished goods	10,234	19,999
	62,332	82,689
Deferred income taxes	4,746	6,646
Other current assets	6,790	7,557
Total current assets	221,083	243,816
Property, plant and equipment, at cost:		
Land and land improvements	12,106	12,002
Buildings and building improvements	31,209	31,190
Machinery and equipment	40,108	38,007
	83,423	81,199
Less accumulated depreciation and amortization	(47,959)	(44,218)
Net property, plant and equipment	35,464	36,981
Goodwill	58,756	58,060
Intangible assets, net	18,977	21,828
Other assets	593	923
	<u>\$ 334,873</u>	<u>\$ 361,608</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 13,217	\$ 18,625
Accrued compensation and benefits	10,271	12,652
Accrued warranty	4,692	6,801
Deferred profit	2,139	2,821
Income taxes payable	1,109	2,518
Other accrued liabilities	4,952	8,454
Total current liabilities	36,380	51,871
Other accrued liabilities	5,847	5,964
Deferred income taxes	11,747	12,742
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$1 par value; 1,000 shares authorized, none issued	—	—
Common stock, \$1 par value; 60,000 shares authorized, 24,632 shares issued and outstanding in 2012 and 24,330 shares in 2011	24,632	24,330
Paid-in capital	83,547	77,658
Retained earnings	170,937	189,055
Accumulated other comprehensive income (loss)	1,783	(12)
Total stockholders' equity	280,899	291,031
	<u>\$ 334,873</u>	<u>\$ 361,608</u>

The accompanying notes are an integral part of these statements.

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

	<u>December 29, 2012</u>	<u>Years ended December 31, 2011</u>	<u>December 25, 2010</u>
Net sales	\$ 221,162	\$ 308,968	\$ 322,667
Cost and expenses:			
Cost of sales	153,184	208,839	212,672
Research and development	36,171	36,230	36,201
Selling, general and administrative	45,891	46,563	44,117
	<u>235,246</u>	<u>291,632</u>	<u>292,990</u>
Income (loss) from operations	(14,084)	17,336	29,677
Interest and other income	967	442	561
Income (loss) before income taxes	(13,117)	17,778	30,238
Income tax provision (benefit)	(874)	2,059	5,594
Net income (loss)	<u>\$ (12,243)</u>	<u>\$ 15,719</u>	<u>\$ 24,644</u>
Income (loss) per share:			
Basic	<u>\$ (0.50)</u>	<u>\$ 0.65</u>	<u>\$ 1.04</u>
Diluted	<u>\$ (0.50)</u>	<u>\$ 0.64</u>	<u>\$ 1.02</u>
Weighted average shares used in computing income (loss) per share:			
Basic	<u>24,459</u>	<u>24,134</u>	<u>23,732</u>
Diluted	<u>24,459</u>	<u>24,501</u>	<u>24,097</u>

The accompanying notes are an integral part of these statements.

COHU, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Years ended		
	December 29, 2012	December 31, 2011	December 25, 2010
Net income (loss)	\$ (12,243)	\$ 15,719	\$ 24,644
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	1,689	(1,076)	(7,270)
Adjustments related to postretirement benefits	122	1,267	(1,506)
Change in unrealized gain/loss on investments	(16)	(6)	(83)
Other comprehensive income (loss), net of tax	1,795	185	(8,859)
Comprehensive income (loss)	<u>\$ (10,448)</u>	<u>\$ 15,904</u>	<u>\$ 15,785</u>

The accompanying notes are an integral part of these statements.

COHU, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except par value and per share amounts)

	Common stock \$1 par value	Paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at December 26, 2009	\$ 23,547	\$64,847	\$160,193	\$ 8,662	\$257,249
Net income	—	—	24,644	—	24,644
Changes in cumulative translation adjustment	—	—	—	(7,270)	(7,270)
Adjustments related to postretirement benefits, net of income taxes	—	—	—	(1,506)	(1,506)
Changes in unrealized gains and losses on investments, net of income taxes	—	—	—	(83)	(83)
Cash dividends - \$0.24 per share	—	—	(5,703)	—	(5,703)
Exercise of stock options	263	2,606	—	—	2,869
Shares issued under employee stock purchase plan	112	1,101	—	—	1,213
Shares issued for restricted stock units vested	101	(101)	—	—	—
Repurchase and retirement of stock	(34)	(431)	—	—	(465)
Share-based compensation expense	—	3,543	—	—	3,543
Tax benefit from equity awards	—	234	—	—	234
Balance at December 25, 2010	23,989	71,799	179,134	(197)	274,725
Net income	—	—	15,719	—	15,719
Changes in cumulative translation adjustment	—	—	—	(1,076)	(1,076)
Adjustments related to postretirement benefits, net of income taxes	—	—	—	1,267	1,267
Changes in unrealized gains and losses on investments, net of income taxes	—	—	—	(6)	(6)
Cash dividends - \$0.24 per share	—	—	(5,798)	—	(5,798)
Exercise of stock options	123	988	—	—	1,111
Shares issued under employee stock purchase plan	120	1,142	—	—	1,262
Shares issued for restricted stock units vested	139	(139)	—	—	—
Repurchase and retirement of stock	(41)	(421)	—	—	(462)
Share-based compensation expense	—	4,287	—	—	4,287
Tax benefit from equity awards	—	2	—	—	2
Balance at December 31, 2011	24,330	77,658	189,055	(12)	291,031
Net loss	—	—	(12,243)	—	(12,243)
Changes in cumulative translation adjustment	—	—	—	1,689	1,689
Adjustments related to postretirement benefits, net of income taxes	—	—	—	122	122
Changes in unrealized gains and losses on investments, net of income taxes	—	—	—	(16)	(16)
Cash dividends - \$0.24 per share	—	—	(5,875)	—	(5,875)
Exercise of stock options	73	536	—	—	609
Shares issued under employee stock purchase plan	152	1,100	—	—	1,252
Shares issued for restricted stock units vested	108	(108)	—	—	—
Repurchase and retirement of stock	(31)	(260)	—	—	(291)
Share-based compensation expense	—	4,621	—	—	4,621
Balance at December 29, 2012	<u>\$ 24,632</u>	<u>\$83,547</u>	<u>\$170,937</u>	<u>\$ 1,783</u>	<u>\$280,899</u>

The accompanying notes are an integral part of these statements.

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

	December 29, 2012	Years ended December 31, 2011	December 25, 2010
Cash flows from operating activities:			
Net income (loss)	\$ (12,243)	\$ 15,719	\$ 24,644
Adjustments to reconcile net income (loss) to net cash provided from operating activities:			
Depreciation and amortization	9,403	10,067	10,988
Share-based compensation expense	4,621	4,287	3,543
Gain on sale of facility	(677)	—	—
Deferred income taxes	581	(1,676)	(1,971)
Accrued retiree benefits	(91)	381	(222)
Excess tax benefit from stock options exercised	—	(2)	(234)
Changes in current assets and liabilities, excluding effects from acquisitions:			
Accounts receivable	4,979	24,877	(23,434)
Inventories	19,897	(20,865)	(13,866)
Accounts payable	(5,458)	427	(4,402)
Other current assets	978	(1,549)	2,958
Income taxes payable, including excess stock option exercise benefits	(1,667)	(6,462)	7,334
Deferred profit	(682)	(12,013)	9,512
Accrued compensation, warranty and other liabilities	(6,472)	(953)	4,665
Net cash provided from operating activities	13,169	12,238	19,515
Cash flows from investing activities, excluding effects from acquisitions:			
Sales and maturities of short-term investments	84,780	75,657	46,979
Purchases of short-term investments	(40,461)	(75,128)	(52,491)
Purchases of property, plant and equipment	(3,267)	(1,413)	(4,579)
Cash received from facility sale	1,080	—	—
Cash paid for Duma Video, Inc.	(900)	—	—
Other assets	(66)	78	314
Net cash provided from (used for) investing activities	41,166	(806)	(9,777)
Cash flows from financing activities:			
Cash dividends paid	(7,333)	(5,777)	(5,679)
Issuance of stock, net	1,570	1,911	3,617
Excess tax benefit from stock options exercised	—	2	234
Net cash used for financing activities	(5,763)	(3,864)	(1,828)
Effect of exchange rate changes on cash and cash equivalents	974	(227)	(236)
Net increase in cash and cash equivalents	49,546	7,341	7,674
Cash and cash equivalents at beginning of year	53,262	45,921	38,247
Cash and cash equivalents at end of year	<u>\$ 102,808</u>	<u>\$ 53,262</u>	<u>\$ 45,921</u>
Supplemental disclosure of cash flow information:			
Cash paid (refunded) during the year for:			
Income taxes	\$ 711	\$ 10,203	\$ (2,138)
Inventory capitalized as capital assets	\$ 567	\$ 1,380	\$ 2,990
Dividends declared but not yet paid	\$ —	\$ 1,455	\$ 1,434

The accompanying notes are an integral part of these statements.

COHU, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation – Cohu, Inc. (“Cohu”, “we”, “our” and “us”), through our wholly owned subsidiaries, is a provider of semiconductor test equipment, microwave communication systems and video cameras. Our Consolidated Financial Statements include the accounts of Cohu and our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Our fiscal years are based on a 52- or 53-week period ending on the last Saturday in December. Our fiscal years ended on December 29, 2012 and December 25, 2010 each consisted of 52 weeks and our fiscal year ended December 31, 2011 consisted of 53 weeks.

Certain prior year balances related to comprehensive income and customer advances have been reclassified to conform to the current year’s presentation. Such reclassifications did not affect total revenues, operating income or net income.

Risks and Uncertainties – We are subject to a number of risks and uncertainties that may significantly impact our future operating results. These risks and uncertainties are discussed under Part I, Item 1A. “Risk Factors” included in this Annual Report on Form 10-K. Understanding these risks and uncertainties is integral to the review of our consolidated financial statements.

Income (Loss) Per Share – Basic income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the reporting period. Diluted income per share includes the dilutive effect of common shares potentially issuable upon the exercise of stock options, vesting of outstanding restricted stock units and issuance of stock under our employee stock purchase plan using the treasury stock method. In loss periods, potentially dilutive securities are excluded from the per share computations due to their anti-dilutive effect. For purposes of computing diluted income per share, stock options with exercise prices that exceed the average fair market value of our common stock for the period are excluded. For the years ended December 31, 2011 and December 25, 2010 approximately 1,956,000 and 1,724,000 shares of our common stock were excluded from the computation, respectively.

The following table reconciles the denominators used in computing basic and diluted income (loss) per share:

<i>(in thousands)</i>	2012	2011	2010
Weighted average common shares outstanding	24,459	24,134	23,732
Effect of dilutive stock options and restricted stock units	—	367	365
	<u>24,459</u>	<u>24,501</u>	<u>24,097</u>

Cash, Cash Equivalents and Short-term Investments – Highly liquid investments with insignificant interest rate risk and original maturities of three months or less are classified as cash and cash equivalents. Investments with maturities greater than three months are classified as short-term investments. All of our short-term investments are classified as available-for-sale and are reported at fair value, with any unrealized gains and losses, net of tax, recorded in the statement of comprehensive income (loss). We manage our cash equivalents and short-term investments as a single portfolio of highly marketable securities. We have the ability and intent, if necessary, to liquidate any of our investments in order to meet the liquidity needs of our current operations during the next 12 months. Accordingly, investments with contractual maturities greater than one year from December 29, 2012 have been classified as current assets in the accompanying consolidated balance sheets.

Fair Value of Financial Instruments – The carrying amounts of our financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses, approximate fair value due to the short maturities of these financial instruments.

COHU, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Concentration of Credit Risk – Financial instruments that potentially subject us to significant credit risk consist principally of cash equivalents, short-term investments and trade accounts receivable. We invest in a variety of financial instruments and, by policy, limit the amount of credit exposure with any one issuer.

Trade accounts receivable are presented net of allowance for doubtful accounts of \$0.3 million at December 29, 2012 and \$0.5 million at December 31, 2011. Our customers include semiconductor manufacturers and semiconductor test subcontractors and other customers located throughout many areas of the world. While we believe that our allowance for doubtful accounts is adequate and represents our best estimate of potential loss exposure at December 29, 2012, we will continue to monitor customer liquidity and other economic conditions, which may result in changes to our estimates regarding collectability.

Inventories – Inventories are stated at the lower of cost, determined on a current average or first-in, first-out basis, or market. Cost includes labor, material and overhead costs. Determining market value of inventories involves numerous estimates and judgments including projecting average selling prices and sales volumes for future periods and costs to complete and dispose of inventory. As a result of these analyses, we record a charge to cost of sales in advance of the period when the inventory is sold when market values are below our costs. Charges to cost of sales for excess and obsolete inventories aggregated \$8.9 million, \$5.8 million, and \$1.7 million in 2012, 2011 and 2010, respectively.

Property, Plant and Equipment – Depreciation and amortization of property, plant and equipment is calculated principally on the straight-line method based on estimated useful lives of thirty to forty years for buildings, five to fifteen years for building improvements and three to ten years for machinery, equipment and software.

Goodwill, Purchased Intangible Assets and Other Long-lived Assets – We evaluate goodwill for impairment annually and when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimated the fair values of our reporting units primarily using the income approach valuation methodology that includes the discounted cash flow method, taking into consideration the market approach and certain market multiples as a validation of the values derived using the discounted cash flow methodology. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on customer forecasts, industry trade organization data and general economic conditions.

We conduct our annual impairment test as of October 1st of each year, and have determined there is no impairment as of October 1, 2012. Other events and changes in circumstances may also require goodwill to be tested for impairment between annual measurement dates. While a decline in stock price and market capitalization is not specifically cited as a goodwill impairment indicator, a company's stock price and market capitalization should be considered in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. Additionally, a significant decline in a company's stock price may suggest that an adverse change in the business climate may have caused the fair value of one or more reporting units to fall below their carrying value. The financial and credit market volatility directly impacts our fair value measurement through our stock price that we use to determine our market capitalization. During times of volatility, significant judgment must be applied to determine whether credit or stock price changes are a short-term swing or a longer-term trend. As of December 29, 2012 we do not believe there have been any events or circumstances that would require us to perform an interim goodwill impairment review, however, a sustained decline in Cohu's market capitalization below its book value could lead us to determine, in a future period, that an interim goodwill impairment review is required and may result in an impairment charge, which would have a negative impact on our results of operations.

Long-lived assets, other than goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or any other significant adverse change that would indicate that the carrying amount of an asset or group of assets may not be recoverable. For long-lived assets, impairment losses are only recorded if the asset's carrying amount is not recoverable through its undiscounted, probability-weighted future cash flows. We measure the impairment loss based on the difference between the carrying amount and estimated fair value.

COHU, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Product Warranty – Product warranty costs are accrued in the period sales are recognized. Our products are generally sold with standard warranty periods, which differ by product, ranging from 12- to 36-months. Parts and labor are typically covered under the terms of the warranty agreement. Our warranty expense accruals are based on historical and estimated costs by product and configuration. From time-to-time we offer customers extended warranties beyond the standard warranty period. In those situations the revenue relating to the extended warranty is deferred at its estimated fair value and recognized on a straight-line basis over the contract period. Costs associated with our extended warranty contracts are expensed as incurred.

Income Taxes – We assess our income tax positions and record tax benefits for all years subject to examination based upon management’s evaluation of the facts, circumstances and information available at the reporting dates. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50 percent likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Where applicable, associated interest has also been recognized and recorded, net of federal and state tax benefits, in income tax expense.

Contingencies and Litigation – We assess the probability of adverse judgments in connection with current and threatened litigation. We would accrue the cost of an adverse judgment if, in our estimation, the adverse outcome is probable and we can reasonably estimate the ultimate cost.

Revenue Recognition – Our net sales are derived from the sale of products and services and are adjusted for estimated returns and allowances, which historically have been insignificant. We recognize revenue when there is persuasive evidence of an arrangement, title and risk of loss have passed, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to our customers upon shipment. In circumstances where either title or risk of loss pass upon destination or acceptance, we defer revenue recognition until such events occur.

Revenue for established products that have previously satisfied a customer’s acceptance requirements and provide for full payment tied to shipment is generally recognized upon shipment and passage of title. In certain instances, customer payment terms may provide that a minority portion (e.g. 20%) of the equipment purchase price be paid only upon customer acceptance. In those situations, the majority portion (e.g. 80%) of revenue where payment is tied to shipment and the entire product cost of sale are recognized upon shipment and passage of title and the minority portion of the purchase price related to customer acceptance is deferred and recognized upon receipt of customer acceptance. In cases where a prior history of customer acceptance cannot be demonstrated or from sales where customer payment dates are not determinable and in the case of new products, revenue is deferred until customer acceptance has been received. Our post-shipment obligations typically include installation and standard warranties. The estimated fair value of installation related revenue is recognized in the period the installation is performed. Service revenue is recognized ratably over the period of the related contract. Spares and kit revenue is generally recognized upon shipment.

Certain of our equipment sales are accounted for as multiple-element arrangements. A multiple-element arrangement is a transaction which may involve the delivery or performance of multiple products, services, or rights to use assets, and performance may occur at different points in time or over different periods of time. For arrangements containing multiple elements initiated prior to December 26, 2010, the first day of our fiscal 2011, the revenue relating to the undelivered elements is deferred at their estimated relative fair values until delivery of the deferred elements. For arrangements initiated or materially modified subsequent to December 26, 2010 containing multiple elements, the revenue relating to the undelivered elements is deferred using the relative selling price method utilizing estimated sales prices until delivery of the deferred elements. We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or adjustment.

COHU, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On shipments where sales are not recognized, gross profit is generally recorded as deferred profit in our consolidated balance sheet representing the difference between the receivable recorded and the inventory shipped. In certain instances where customer payments are received prior to product shipment, the customer's payments are recorded as customer advances in our consolidated balance sheet. At December 29, 2012, we had total deferred revenue of approximately \$3.6 million and deferred profit of \$2.1 million. At December 31, 2011, we had total deferred revenue of approximately \$6.6 million and deferred profit of \$2.8 million.

Advertising Costs – Advertising costs are expensed as incurred and were not material for all periods presented.

Share-based Compensation – We measure and recognize all share-based compensation under the fair value method. Our estimate of share-based compensation expense requires a number of complex and subjective assumptions including our stock price volatility, employee exercise patterns (expected life of the options), future forfeitures and related tax effects. The assumptions used in calculating the fair value of share-based awards represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment. Although we believe the assumptions and estimates we have made are reasonable and appropriate, changes in assumptions could materially impact our reported financial results.

Foreign Currency Translation – Assets and liabilities of those subsidiaries that use the U.S. dollar as their functional currency are translated using exchange rates in effect at the end of the period, except for nonmonetary assets, such as inventories and property, plant and equipment, which are translated using historical exchange rates. Revenues and costs are translated using average exchange rates for the period, except for costs related to those balance sheet items that are translated using historical exchange rates. Gains and losses on foreign currency transactions are recognized as incurred. Our subsidiaries located in Germany, designated the Euro as their functional currency and, as a result, their assets and liabilities are translated at the rate of exchange at the balance sheet date, while revenue and expenses are translated using the average exchange rate for the period. Cumulative translation adjustments resulting from the translation of the financial statements are included as a separate component of stockholders' equity. Foreign currency gains and losses were not significant in any period and are included in the consolidated statements of operations.

Comprehensive Income (Loss) – Our accumulated other comprehensive income (loss) totaled approximately \$1.8 million and \$(12,000) at December 29, 2012 and December 31, 2011, respectively, and was attributed to, net of income taxes where applicable, foreign currency adjustments resulting from the translation of certain accounts into U.S. dollars where the functional currency is the Euro, unrealized losses and gains on investments and adjustments to accumulated postretirement benefit obligations. Additional information related to accumulated other comprehensive income (loss), on an after-tax basis is included in Note 12.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements – In September 2011, the Financial Accounting Standards Board ("FASB") issued guidance to amend and simplify the rules related to testing goodwill for impairment. The revised guidance allows an entity to make an initial qualitative evaluation, based on the entity's events and circumstances, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of this qualitative assessment determine whether it is necessary to perform the currently required two-step impairment test. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this new guidance in the first quarter of fiscal 2012 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued new guidance on the presentation of comprehensive income. Specifically, the new guidance allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The adoption of this new guidance in the first quarter of fiscal 2012 did not have a material impact on our consolidated financial position, results of operations or cash flows.

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In May 2011, the FASB issued new guidance to achieve common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards. This new guidance amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The adoption of this new guidance in the first quarter of fiscal 2012 did not have a material impact on our consolidated financial position, results of operations or cash flows.

Recently Issued Accounting Pronouncements – In July 2012, the FASB issued guidance to simplify the testing for a drop in value of intangible assets such as trademarks, patents, and distribution rights. The amended standard reduces the cost of accounting for indefinite-lived intangible assets, especially in cases where the likelihood of impairment is low. The changes permit businesses and other organizations to first use subjective criteria to determine if an intangible asset has lost value. The amendments will be effective for fiscal years starting after September 15, 2012 with early adoption permitted. We do not believe our adoption of the new guidance in the first quarter of fiscal 2013 will have an impact on our consolidated financial position, results of operations or cash flows.

2. Subsequent Event

On December 31, 2012, we completed the acquisition (the “Acquisition”) of all of the outstanding share capital of Ismeca Semiconductor Holding SA (“Ismeca”) from Schweiter Technologies AG (the “Seller”) pursuant to a Share Purchase and Transfer Agreement dated December 9, 2012, by and between the Seller and a wholly owned subsidiary of Cohu (the “Purchase Agreement”). Ismeca, headquartered in La Chaux-de-Fonds, Switzerland, and with major operations in Malacca, Malaysia and Suzhou, China, designs, manufactures and sells turret-based test handling and back-end finishing equipment for ICs, LEDs and discrete components. The aggregate purchase price was approximately \$57.1 million, comprised of an initial purchase price of \$54.5 million, increased by approximately \$2.6 million based on net cash and net debt acquired, as required by the Purchase Agreement. In connection with the Acquisition, we incurred approximately \$2.3 million in acquisition related costs, which were expensed as general and administrative costs during the year ended December 29, 2012.

Due to the timing of the closing of the Acquisition we are currently in the process of completing the purchase accounting and related allocations. Although this work is preliminary, at this time we anticipate that a significant portion of the purchase price will be allocated to goodwill and purchased intangible assets and we expect this work to be completed in the second quarter of fiscal 2013.

3. Goodwill and Purchased Intangible Assets

Changes in the carrying value of goodwill by reportable segment during the years ended December 29, 2012 and December 31, 2011 were as follows (*in thousands*):

	Semiconductor Equipment	Microwave Communications	Total Goodwill
Balance, December 25, 2010	\$ 55,280	\$ 3,218	\$58,498
Impact of currency exchange	(408)	(30)	(438)
Balance, December 31, 2011	54,872	3,188	58,060
Impact of currency exchange	648	48	696
Balance, December 29, 2012	<u>\$ 55,520</u>	<u>\$ 3,236</u>	<u>\$58,756</u>

In August 2012, our microwave communication equipment segment acquired the intellectual property and certain other assets of Duma Video, Inc. (“Duma”), a distributor of low latency compression video encoding and decoding devices. The purchase price of these assets was approximately \$1.0 million and the amount allocated to intangible assets is being amortized on a straight-line basis over three years. Under the terms of the purchase agreement, in addition to the up-front cash payment, we will be required to make future payments to the seller totaling a maximum of approximately \$0.5 million, contingent upon the completion of certain milestone events.

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Our purchased intangible assets, subject to amortization, were as follows (*in thousands*):

	December 29, 2012			December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization
Rasco technology	\$ 32,399	\$ 16,452	4.0 years	\$ 31,737	\$ 12,149
Duma technology	864	120	2.6 years	—	—
	<u>\$ 33,263</u>	<u>\$ 16,572</u>		<u>\$ 31,737</u>	<u>\$ 12,149</u>

The amounts included in the table above for the years ended December 29, 2012 and December 31, 2011 exclude approximately \$2.3 million and \$2.2 million, respectively, related to the Rasco trade name which has an indefinite life and is not being amortized.

Amortization expense related to purchased intangible assets was approximately \$4.1 million, \$4.6 million and \$6.1 million in 2012, 2011 and 2010, respectively. As of December 29, 2012, we expect amortization expense in future periods to be as follows: 2013 – \$4.3 million; 2014 - \$4.3 million; 2015 - \$4.2 million; and 2016 - \$3.8 million.

4. Cash, Cash Equivalents and Short-term Investments

Our cash, cash equivalents, and short-term investments consisted primarily of cash and other investment grade securities. We do not hold investment securities for trading purposes. All short-term investments are classified as available-for-sale and recorded at fair value. Investment securities are exposed to market risk due to changes in interest rates and credit risk and we monitor credit risk and attempt to mitigate exposure by making high-quality investments and through investment diversification.

Gains and losses on investments are calculated using the specific-identification method and are recognized during the period in which the investment is sold or when an investment experiences an other-than-temporary decline in value. Factors that could indicate an impairment exists include, but are not limited to: earnings performance, changes in credit rating or adverse changes in the regulatory or economic environment of the asset. Gross realized gains and losses on sales of short-term investments are included in interest income. Realized gains and losses for the periods presented were not significant.

Investments that we have classified as short-term, by security type, are as follows (*in thousands*):

	At December 29, 2012			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses ⁽¹⁾	
Municipal securities	\$ 1,470	\$ —	\$ —	\$ 1,470
Government-sponsored enterprise securities	5,937	14	—	5,951
	<u>\$ 7,407</u>	<u>\$ 14</u>	<u>\$ —</u>	<u>\$ 7,421</u>

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	At December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	\$ 3,258	\$ 9	\$ —	\$ 3,267
Corporate debt securities ⁽²⁾	22,454	6	2	22,458
Municipal securities	4,315	—	—	4,315
Government-sponsored enterprise securities	19,033	32	15	19,050
Bank certificates of deposit	2,650	—	—	2,650
	<u>\$51,710</u>	<u>\$ 47</u>	<u>\$ 17</u>	<u>\$51,740</u>

(1) As of December 29, 2012, there were no investments in our portfolio in a loss position. As of December 31, 2011, the cost and fair value of investments with loss positions were approximately \$12.8 million. We evaluated the nature of these investments, credit worthiness of the issuer and the duration of these impairments to determine if an other-than-temporary decline in fair value had occurred and concluded that these losses were temporary and we have the ability and intent to hold these investments to maturity.

(2) Corporate debt securities include investments in financial and other corporate institutions. No single issuer represents a significant portion of the total corporate debt securities portfolio.

Effective maturities of short-term investments at December 29, 2012, were as follows:

<i>(in thousands)</i>	Amortized Cost	Estimated Fair Value
Due in one year or less	<u>\$ 7,407</u>	<u>\$ 7,421</u>

Our municipal securities include variable rate demand notes which can be put (sold at par) typically on a daily basis with settlement periods ranging from the same day to one week and have varying contractual maturities through 2037. These securities can be used for short-term liquidity needs and are held for limited periods of time. At December 29, 2012 these securities had amortized cost and fair value of \$1.5 million and are included in “Due in one year or less” in the table above.

Accounting standards pertaining to fair value measurements establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. When available, we use quoted market prices to determine the fair value of our investments, and they are included in Level 1. When quoted market prices are unobservable, we use quotes from independent pricing vendors based on recent trading activity and other relevant information.

The following table summarizes, by major security type, our assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy *(in thousands)*:

	Fair value measurements at December 29, 2012 using:			
	Level 1	Level 2	Level 3	Total estimated fair value
Cash	\$101,054	\$ —	\$ —	\$ 101,054
Municipal securities	—	1,470	—	1,470
Government-sponsored enterprise securities	—	5,951	—	5,951
Money market funds	—	1,754	—	1,754
	<u>\$101,054</u>	<u>\$9,175</u>	<u>\$ —</u>	<u>\$ 110,229</u>

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	Fair value measurements at December 31, 2011 using:			
	Level 1	Level 2	Level 3	Total estimated fair value
Cash	\$ 25,359	\$ —	\$ —	\$ 25,359
U.S. Treasury securities	3,267	—	—	3,267
Corporate debt securities	—	27,208	—	27,208
Municipal securities	—	4,315	—	4,315
Government-sponsored enterprise securities	—	19,050	—	19,050
Money market funds	—	22,753	—	22,753
Bank certificates of deposit	—	3,050	—	3,050
	<u>\$ 28,626</u>	<u>\$ 76,376</u>	<u>\$ —</u>	<u>\$ 105,002</u>

5. Employee Benefit Plans

Retirement Plans – We have a voluntary defined contribution retirement 401(k) plan whereby we match employee contributions. In 2012 and 2011, we provided a matching contribution at 1.5% of eligible employee compensation and made contributions to the plan of approximately \$0.5 million in both periods. There were no employer matching contributions made to the plan in 2010. Certain of our foreign employees participate in defined benefit pension plans. The related expense and benefit obligation of these plans were not significant for any period presented.

Retiree Medical Benefits – We provide post-retirement health benefits to certain executives and directors under a noncontributory plan. The net periodic benefit cost was \$0.3 million, \$0.4 million and \$0.3 million in 2012, 2011 and 2010, respectively. We fund benefits as costs are incurred and as a result there are no plan assets.

The weighted average discount rate used in determining the accumulated post-retirement benefit obligation was 3.7% in 2012, 4.2% in 2011 and 5.4% in 2010. Annual rates of increase of the cost of health benefits were assumed to be 9.0% in 2013. These rates were then assumed to decrease 0.5% per year to 5.0% in 2021 and remain level thereafter. A one percent increase (decrease) in health care cost trend rates would increase (decrease) the 2012 net periodic benefit cost by approximately \$13,000 (\$13,000) and the accumulated post-retirement benefit obligation as of December 29, 2012, by approximately \$322,000 (\$269,000).

The following table sets forth the post-retirement benefit obligation, funded status and the liability we have recorded in our consolidated balance sheets:

(in thousands)	2012	2011
Accumulated benefit obligation at beginning of year	\$ 2,909	\$ 3,909
Service cost	16	20
Interest cost	120	208
Actuarial gain	(617)	(1,137)
Benefits paid	(62)	(91)
Accumulated benefit obligation at end of year	2,366	2,909
Plan assets at end of year	—	—
Funded status	<u>\$(2,366)</u>	<u>\$(2,909)</u>

Deferred Compensation – The Cohu, Inc. Deferred Compensation Plan allows certain of our officers to defer a portion of their current compensation. We have purchased life insurance policies on the participants with Cohu as the named beneficiary. Participant contributions, distributions and investment earnings and losses are accumulated in a separate account for each participant. At December 29, 2012 and December 31, 2011, the payroll liability to participants, included in accrued compensation and benefits in the consolidated balance sheet, was approximately \$2.1 million and \$2.0 million and the cash surrender value of the related life insurance policies included in other current assets was approximately \$1.7 million and \$1.6 million, respectively.

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Employee Stock Purchase Plan – The Cohu, Inc. 1997 Employee Stock Purchase Plan (“the Plan”) provides for the issuance of a maximum of 1,900,000 shares of our common stock. Under the Plan, eligible employees may purchase shares of common stock through payroll deductions. The price paid for the common stock is equal to 85% of the fair market value of our common stock on specified dates. In 2012, 2011, and 2010, 151,812, 120,240 and 112,745 shares, respectively, were issued under the Plan. At December 29, 2012, there were 485,542 shares reserved for issuance under the Plan.

Stock Options – Under our equity incentive plans, stock options may be granted to employees, consultants and outside directors to purchase a fixed number of shares of our common stock at prices not less than 100% of the fair market value at the date of grant. Options generally vest and become exercisable after one year or in four annual increments beginning one year after the grant date and expire ten years from the grant date. At December 29, 2012, 1,931,575 shares were available for future equity grants under the Cohu, Inc. 2005 Equity Incentive Plan. We have historically issued new shares of Cohu common stock upon share option exercise.

Stock option activity under our share-based compensation plans was as follows:

<i>(in thousands, except per share data)</i>	2012		2011		2010	
	Shares	Wt. Avg. Ex. Price	Shares	Wt. Avg. Ex. Price	Shares	Wt. Avg. Ex. Price
Outstanding, beginning of year	3,112	\$13.01	3,210	\$12.89	3,221	\$12.87
Granted	437	\$10.50	157	\$13.33	380	\$13.77
Exercised	(73)	\$ 8.26	(123)	\$ 9.03	(263)	\$10.92
Canceled	(363)	\$14.29	(132)	\$14.24	(128)	\$19.06
Outstanding, end of year	<u>3,113</u>	<u>\$12.62</u>	<u>3,112</u>	<u>\$13.01</u>	<u>3,210</u>	<u>\$12.89</u>
Options exercisable at year end	2,209	\$13.52	2,112	\$14.44	1,857	\$15.26

The aggregate intrinsic value of options exercised during 2012, 2011 and 2010 was approximately \$0.2 million, \$0.6 million, and \$0.8 million, respectively. At December 29, 2012, the aggregate intrinsic value of options outstanding, vested and expected to vest were each approximately \$2.8 million and the aggregate intrinsic value of options exercisable was approximately \$1.9 million.

Information about stock options outstanding at December 29, 2012 is as follows *(options in thousands)*:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Approximate Wt. Avg. Remaining Life (Years)	Wt. Avg. Ex. Price	Number Exercisable	Wt. Avg. Ex. Price
\$ 7.32 - \$10.83	1,317	7.2	\$ 8.33	641	\$ 7.39
\$10.84 - \$16.26	1,001	5.0	\$14.49	773	\$14.64
\$16.27 - \$24.41	790	2.3	\$17.33	790	\$17.33
\$24.42 - \$36.63	5	2.5	\$25.70	5	\$25.70
	<u>3,113</u>	<u>5.2</u>	<u>\$12.62</u>	<u>2,209</u>	<u>\$13.52</u>

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Restricted Stock Units – Under our equity incentive plans, restricted stock units may be granted to employees, consultants and outside directors. Restricted stock units vest over either a one-year or a four-year period from the date of grant. Prior to vesting, restricted stock units do not have dividend equivalent rights, do not have voting rights and the shares underlying the restricted stock units are not considered issued and outstanding. Shares of our common stock will be issued on the date the restricted stock units vest.

Restricted stock unit activity under our share-based compensation plans was as follows:

	2012		2011		2010	
	Units	Wt. Avg. Fair Value	Units	Wt. Avg. Fair Value	Units	Wt. Avg. Fair Value
<i>(in thousands, except per share data)</i>						
Outstanding, beginning of year	299	\$ 12.98	373	\$ 13.35	155	\$ 14.60
Granted	462	\$ 9.57	75	\$ 13.00	323	\$ 12.90
Vested	(108)	\$ 13.27	(139)	\$ 13.91	(101)	\$ 14.68
Canceled	(38)	\$ 13.92	(10)	\$ 13.41	(4)	\$ 15.40
Outstanding, end of year	<u>615</u>	<u>\$ 10.54</u>	<u>299</u>	<u>\$ 12.98</u>	<u>373</u>	<u>\$ 13.35</u>

Equity-Based Performance Stock Units – In March 2012, we granted equity-based performance units covering 128,916 shares of our common stock to certain employees. The number of shares of stock ultimately issued to participants will depend upon the extent to which the financial performance goals set by our Board of Directors are met. The award measurement period is based on a one-year period which ends on December 29, 2012. Based upon the level of achievement of performance goals the number of shares we will issue can range from 0% up to 150% of the number of shares under each grant which will vest over 3 years from the date of initial grant. We record a provision for equity-based performance units outstanding based on our current assessment of achievement of the performance goals. Shares of our common stock will be issued on the date the equity-based performance units vest.

Share-based Compensation – We estimate the fair value of each share-based award on the grant date using the Black-Scholes valuation model. Option valuation models, including Black-Scholes, require the input of highly subjective assumptions, and changes in the assumptions used can materially affect the grant date fair value of an award. These assumptions include the risk-free rate of interest, expected dividend yield, expected volatility, and the expected life of the award. The risk-free rate of interest is based on the U.S. Treasury rates appropriate for the expected term of the award as of the grant date. Expected dividends are based, primarily, on historical factors related to our common stock. Expected volatility is based on historic, weekly stock price observations of our common stock during the period immediately preceding the share-based award grant that is equal in length to the award's expected term. We believe that historical volatility is the best estimate of future volatility. Expected life of the award is based on historical option exercise data. Estimated forfeitures are required to be included as a part of the grant date expense estimate. We used historical data to estimate expected employee behaviors related to option exercises and forfeitures.

Share-based compensation expense related to restricted stock unit awards is calculated based on the market price of our common stock on the date of grant, reduced by the present value of dividends expected to be paid on our common stock prior to vesting of the restricted stock unit.

The following weighted average assumptions were used to value share-based awards granted:

<i>Employee Stock Purchase Plan</i>	2012	2011	2010
Dividend yield	2.4%	1.9%	1.8%
Expected volatility	43.6%	42.4%	48.2%
Risk-free interest rate	0.1%	0.1%	0.2%
Expected term of options	0.5 years	0.5 years	0.5 years
Weighted-average grant date fair value per share	\$2.78	\$3.77	\$3.90

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<i>Employee Stock Options</i>	2012	2011	2010
Dividend yield	2.1%	2.0%	1.6%
Expected volatility	46.3%	45.8%	46.6%
Risk-free interest rate	1.2%	1.9%	1.6%
Expected term of options	6.25 years	6.0 years	5.9 years
Weighted-average grant date fair value per share	\$3.87	\$5.06	\$5.39

<i>Restricted Stock Units</i>	2012	2011	2010
Dividend yield	2.3%	1.8%	1.7%

<i>Performance Stock Units</i>	2012
Dividend yield	2.3%

Reported share-based compensation is classified in the consolidated financial statements as follows:

<i>(in thousands)</i>	2012	2011	2010
Cost of sales	\$ 417	\$ 420	\$ 297
Research and development	1,364	1,356	1,121
Selling, general and administrative	2,840	2,511	2,125
Total share-based compensation	4,621	4,287	3,543
Income tax benefit	—	—	—
Total share-based compensation, net of tax	<u>\$4,621</u>	<u>\$4,287</u>	<u>\$3,543</u>

At December 29, 2012, excluding a reduction for forfeitures, we had approximately \$2.8 million of pre-tax unrecognized compensation cost related to unvested stock options which is expected to be recognized over a weighted-average period of approximately 1.5 years.

At December 29, 2012, excluding a reduction for forfeitures, we had approximately \$5.9 million of pre-tax unrecognized compensation cost related to unvested restricted stock units and performance stock units which is expected to be recognized over a weighted-average period of approximately 2.3 years.

6. Income Taxes

Significant components of the provision (benefit) for income taxes are as follows:

<i>(in thousands)</i>	2012	2011	2010
Current:			
U.S. Federal	\$ (1,898)	\$ (90)	\$ 1,239
U.S. State	(388)	(250)	(71)
Foreign	831	4,075	6,397
Total current	(1,455)	3,735	7,565
Deferred:			
U.S. Federal	1,890	(977)	(1,519)
U.S. State	186	(4)	(207)
Foreign	(1,495)	(695)	(245)
Total deferred	581	(1,676)	(1,971)
	<u>\$ (874)</u>	<u>\$ 2,059</u>	<u>\$ 5,594</u>

Income (loss) before income taxes consisted of the following:

<i>(in thousands)</i>	2012	2011	2010
U.S.	\$ (10,189)	\$ 8,154	\$ 7,059
Foreign	(2,928)	9,624	23,179
Total	<u>\$ (13,117)</u>	<u>\$ 17,778</u>	<u>\$ 30,238</u>

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and tax purposes. Significant components of our deferred tax assets and liabilities were as follows:

(in thousands)	2012	2011
Deferred tax assets:		
Inventory, receivable and warranty reserves	\$ 11,434	\$ 12,604
Net operating loss carryforwards	2,299	1,069
Tax credit carryforwards	7,764	7,213
Accrued employee benefits	2,167	2,233
Deferred profit	502	688
Stock-based compensation	3,409	2,715
Acquisition basis differences	2,226	2,369
Depreciation and fixed asset related	318	—
Other	243	207
Gross deferred tax assets	30,362	29,098
Less valuation allowance	(24,948)	(22,352)
Total deferred tax assets	5,414	6,746
Deferred tax liabilities:		
Depreciation and fixed asset related	—	211
Gain on facilities sale	2,792	2,788
Acquisition basis differences	9,340	9,591
Other	283	252
Total deferred tax liabilities	12,415	12,842
Net deferred tax liabilities	\$ (7,001)	\$ (6,096)

Companies are required to assess whether a valuation allowance should be recorded against their deferred tax assets (“DTAs”) based on the consideration of all available evidence, using a “more likely than not” realization standard. The four sources of taxable income that must be considered in determining whether DTAs will be realized are, (1) future reversals of existing taxable temporary differences (i.e. offset of gross deferred tax assets against gross deferred tax liabilities); (2) taxable income in prior carryback years, if carryback is permitted under the tax law; (3) tax planning strategies and (4) future taxable income exclusive of reversing temporary differences and carryforwards.

In assessing whether a valuation allowance is required, significant weight is to be given to evidence that can be objectively verified. We have evaluated our DTAs each reporting period, including an assessment of our cumulative income or loss over the prior three-year period and future periods, to determine if a valuation allowance was required. A significant negative factor in our assessment was Cohu’s three-year cumulative U.S. loss history at the end of the 2009 and 2010 fiscal year periods.

After a review of the four sources of taxable income described above and in view of our three-year cumulative U.S. loss, we recorded an increase in our valuation allowance on U.S. DTAs, with a corresponding charge to our income tax provision, of approximately \$19.6 million in the second quarter of fiscal 2009.

Notwithstanding our 36-month domestic, cumulative GAAP pretax income of approximately \$5.0 million at the end of 2012, with (i) our operating loss in 2012, (ii) weak business conditions in our primary business segment and (iii) our significant gross deferred tax assets we were unable to conclude at December 29, 2012 that it was “more likely than not” that our DTAs would be realized and will only reverse the valuation allowance and reinstate DTAs to the extent we accrue taxes on future income. We will evaluate the realizability of our DTAs at the end of each quarterly reporting period in 2013 and should circumstances change it is possible the remaining valuation allowance, or a portion thereof, will be reversed during 2013.

Our valuation allowance on DTAs at December 29, 2012 and December 31, 2011 was approximately \$24.9 million and \$22.4 million, respectively. The remaining gross DTAs for which a valuation allowance was not

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recorded are realizable through future reversals of existing taxable temporary differences or loss carryback. As the realization of DTAs is determined by tax jurisdiction, the significant deferred tax liability recorded as part of the 2008 acquisition of Rasco, a German corporation, was not a source of taxable income in assessing the realization of our DTAs in the U.S.

The reconciliation of income tax computed at the U.S. federal statutory tax rate to the provision (benefit) for income taxes is as follows:

<i>(in thousands)</i>	2012	2011	2010
Tax provision (credit) at U.S. 35% statutory rate	\$(4,591)	\$6,223	\$10,583
State income taxes, net of federal tax benefit	(645)	(941)	95
Settlements, adjustments and releases from statute expirations	367	(791)	(712)
Change in effective tax rate for deferred balances	346	—	638
Federal tax credits	—	(707)	(688)
Stock-based compensation on which no tax benefit provided	177	202	55
Change in valuation allowance	2,614	(483)	(2,027)
Foreign income taxed at different rates	(227)	(726)	(1,740)
Non-deductible transaction costs	700	—	—
Other, net	385	(718)	(610)
	<u>\$ (874)</u>	<u>\$ 2,059</u>	<u>\$ 5,594</u>

State income taxes, net of federal benefit, have been reduced by research tax credits totaling approximately \$0.6 million in 2012, 2011 and 2010.

At December 29, 2012, we had state and foreign net operating loss carryforwards of approximately \$21.7 million and \$3.7 million, respectively, that expire in various tax years through 2032 or have no expiration date. We also have federal and state tax credit carryforwards at December 29, 2012 of approximately \$3.0 million and \$11.2 million, respectively, certain of which expire in various tax years beginning in 2014 through 2032 or have no expiration date. The federal credit carryforward and state net operating loss and credit carryforwards are subject to annual limitations under Sections 382 and 383 of the Internal Revenue Code and applicable state tax law.

The American Taxpayer Relief Act of 2012, which reinstated the United States federal research and development tax credit retroactively from January 1, 2012 through December 31, 2012, was not enacted into law until the first quarter of 2013. Therefore, the expected tax benefit, if any, resulting from such reinstatement for fiscal 2012 will not be reflected in the Company's income tax provision until 2013.

U.S. income taxes have not been provided on approximately \$16 million of accumulated undistributed earnings of certain foreign subsidiaries, as we currently intend to indefinitely reinvest these earnings in operations outside the U.S. It is not practicable to estimate the amount of tax that might be payable if some or all of such earnings were to be remitted. We have certain tax holidays or incentives with respect to our operations in Singapore and the Philippines. These holidays or incentives require compliance with certain conditions and expire at various dates through 2020. The impact of these holidays or incentives on net income was not significant for fiscal years ended December 2012, 2011 and 2010.

A reconciliation of our gross unrecognized tax benefits is as follows:

<i>(in thousands)</i>	2012	2011	2010
Balance at beginning of year	\$5,381	\$ 5,069	\$4,886
Gross additions for tax positions of current year	776	1,455	578
Gross additions (reductions) for tax positions of prior years	195	126	(23)
Reductions as a result of a lapse of the statute of limitations	(272)	(1,269)	(372)
Balance at end of year	<u>\$6,080</u>	<u>\$ 5,381</u>	<u>\$5,069</u>

COHU, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

If the unrecognized tax benefits at December 29, 2012 are ultimately recognized, approximately \$2.5 million (\$3.1 million at December 31, 2011) would result in a reduction in our income tax expense and effective tax rate. We are unable to estimate the range of any reasonably possible increase or decrease in our gross unrecognized tax benefits over the next 12 months. However, we do not expect any such outcome will result in a material change to our financial condition or results of operations.

We recognize interest and penalties related to unrecognized tax benefits in income tax expense. Cohu had approximately \$0.4 million accrued for the payment of interest and penalties at December 29, 2012 and December 31, 2011. Interest expense recognized in 2012, 2011 and 2010 was approximately \$0.1 million, \$0.2 million and \$0.1 million, respectively.

Our U.S. federal and state income tax returns for years after 2008 and 2007, respectively, remain open to examination, subject to the statute of limitations. Net operating loss and credit carryforwards arising prior to these years are also open to examination if and when utilized. The statute of limitations for the assessment and collection of income taxes related to our foreign tax returns varies by country. In the foreign countries where we have significant operations these time periods generally range from four to six years after the year for which the tax is due.

7. Segment and Related Information

Our reportable segments are business units that offer different products and are managed separately because each business requires different technology and marketing strategies. Our three segments are: semiconductor equipment, microwave communications and video cameras.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. We allocate resources and evaluate the performance of segments based on profit or loss from operations, excluding interest, corporate expenses and unusual gains or losses. Intersegment sales were not significant for any period.

Financial information by industry segment is presented below:

<i>(in thousands)</i>	2012	2011	2010
Net sales by segment:			
Semiconductor equipment	\$ 179,449	\$ 260,648	\$ 273,566
Microwave communications	26,863	29,967	31,705
Video cameras	14,850	18,353	17,396
Total consolidated net sales and net sales for reportable segments	<u>\$ 221,162</u>	<u>\$ 308,968</u>	<u>\$ 322,667</u>
Segment profit (loss):			
Semiconductor equipment	\$ (5,331)	\$ 20,040	\$ 29,654
Microwave communications	(847)	1,510	3,679
Video cameras	(121)	807	561
Profit (loss) for reportable segments	(6,299)	22,357	33,894
Other unallocated amounts:			
Corporate expenses ⁽¹⁾	(7,785)	(5,021)	(4,217)
Interest and other income	967	442	561
Income (loss) from operations before income taxes	<u>\$ (13,117)</u>	<u>\$ 17,778</u>	<u>\$ 30,238</u>

(1) Increase in corporate expense in 2012 was primarily a result of \$2.3 million in Ismeca acquisition related costs.

COHU, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<i>(in thousands)</i>	2012	2011	2010
<i>Depreciation and amortization by segment deducted in arriving at profit (loss):</i>			
Semiconductor equipment	\$ 4,506	\$ 4,313	\$ 3,596
Microwave communications	652	893	1,096
Video cameras	188	216	237
	<u>5,346</u>	<u>5,422</u>	<u>4,929</u>
Intangible amortization	4,057	4,645	6,059
Total depreciation and amortization for reportable segments	<u>\$ 9,403</u>	<u>\$ 10,067</u>	<u>\$ 10,988</u>
<i>Capital expenditures by segment:</i>			
Semiconductor equipment	\$ 2,759	\$ 991	\$ 3,973
Microwave communications	481	313	440
Video cameras	27	109	166
Total consolidated capital expenditures	<u>\$ 3,267</u>	<u>\$ 1,413</u>	<u>\$ 4,579</u>
<i>(in thousands)</i>	2012	2011	2010
<i>Total assets by segment:</i>			
Semiconductor equipment	\$281,173	\$255,189	\$255,246
Microwave communications	22,635	21,968	27,812
Video cameras	9,424	11,598	11,092
Total assets for reportable segments	<u>313,232</u>	<u>288,755</u>	<u>294,150</u>
Corporate, principally cash and investments and deferred taxes	21,641	72,853	71,893
Total consolidated assets	<u>\$334,873</u>	<u>\$361,608</u>	<u>\$366,043</u>

Customers from the semiconductor equipment segment comprising 10% or greater of our consolidated net sales are summarized as follows:

	2012	2011	2010
Intel	39 %	36 %	26 %
Texas Instruments	*	11 %	14 %
* Less than 10% of net sales			

Net sales to customers, attributed to countries based on product shipment destination, were as follows:

<i>(in thousands)</i>	2012	2011	2010
United States	\$ 57,193	\$ 77,563	\$ 64,992
Malaysia	40,326	48,624	52,539
China	31,973	37,824	50,454
Costa Rica	22,934	14,152	6,778
Philippines	22,507	40,368	51,659
Rest of the World	46,229	90,437	96,245
Total	<u>\$221,162</u>	<u>\$308,968</u>	<u>\$322,667</u>

COHU, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Geographic location of our property, plant and equipment and other long-lived assets was as follows:

<i>(in thousands)</i>	2012	2011
Property, plant and equipment:		
United States	\$22,621	\$24,138
Germany	8,802	8,625
Asia (Singapore, Taiwan and the Philippines)	4,041	4,218
Total, net	<u>\$35,464</u>	<u>\$36,981</u>
Goodwill and other intangible assets:		
Germany	\$53,190	\$56,089
United States	17,985	17,241
Singapore	6,558	6,558
Total, net	<u>\$77,733</u>	<u>\$79,888</u>

8. Stockholder Rights Plan

In November, 1996, we adopted a Stockholder Rights Plan ("Rights Plan") and declared a dividend distribution of one Preferred Stock Purchase Right ("Right") for each share of common stock, payable to holders of record on December 3, 1996. Under the Rights Plan, each stockholder received one Right for each share of common stock owned. Each Right entitled the holder to buy one one-hundredth (1/100) of a share of Cohu's Series A Preferred Stock for \$90. As a result of the two-for-one stock split in September, 1999, each share of common stock was associated with one-half of a Right entitling the holder to purchase one two-hundredth (1/200) of a share of Series A Preferred Stock for \$45. In November, 2006, we amended and restated our existing Rights Plan to extend its term to November 9, 2016 and make certain other changes. Pursuant to the amendment, to reflect the increase in the price of our common stock since the adoption of the Rights Plan, the exercise price of each Right was increased to \$190. Consequently, each one-half of a Right entitles the holder to purchase one two-hundredth (1/200) of a share of Series A Preferred Stock for \$95. The Rights are not presently exercisable and will only become exercisable following the occurrence of certain specified events. If these specified events occur, each Right will be adjusted to entitle its holder to receive, upon exercise, common stock having a value equal to two times the exercise price of the Right, or each Right will be adjusted to entitle its holder to receive common stock of the acquiring company having a value equal to two times the exercise price of the Right, depending on the circumstances. The Rights expire on November 9, 2016, and we may redeem them for \$0.001 per Right. The Rights do not have voting or dividend rights and, until they become exercisable, have no dilutive effect on our earnings per share.

9. Commitments and Contingencies

We lease certain of our facilities and equipment under non-cancelable operating leases. Rental expense was \$1.1 million in both 2012 and 2011 and \$1.3 million in 2010. Future minimum lease payments at December 29, 2012 are as follows:

<i>(in thousands)</i>	2013	2014	2015	2016	2017	Thereafter	Total
Non-cancelable operating leases	\$993	\$596	\$72	\$—	\$ —	\$ —	\$1,661

From time-to-time we are involved in various legal proceedings, examinations by various tax authorities and claims that have arisen in the ordinary course of our businesses. Although the outcome of such legal proceedings, claims and examinations cannot be predicted with certainty, we do not believe any such matters exist at this time that will have a material adverse effect on our financial position or results of our operations.

COHU, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Guarantees

Changes in accrued warranty during the three-year period ended December 29, 2012 were as follows:

<i>(in thousands)</i>	2012	2011	2010
Beginning balance	\$ 6,801	\$ 5,016	\$ 3,747
Warranty accruals	4,214	10,987	6,071
Warranty payments	(6,323)	(9,202)	(4,802)
Ending balance	<u>\$ 4,692</u>	<u>\$ 6,801</u>	<u>\$ 5,016</u>

During the ordinary course of business, we provide standby letters of credit instruments to certain parties as required. At December 29, 2012, the maximum potential amount of future payments that we could be required to make under these standby letters of credit was approximately \$0.6 million. We have not recorded any liability in connection with these arrangements beyond that required to appropriately account for the underlying transaction being guaranteed. We do not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these arrangements.

11. Related Party Transactions

James A. Donahue, Chairman, President and CEO of Cohu, and Steven J. Bilodeau, a member of the Cohu Board of Directors, were formerly members of the Board of Directors of Standard Microsystems Corporation ("SMSC"), a customer of our semiconductor equipment segment. SMSC was purchased by Microchip Technology Management Co. on August 2, 2012. During 2012, 2011 and 2010, total sales to SMSC were approximately \$0.2 million, \$0.5 million, and \$0.4 million, respectively. William E. Bendush, a member of the Cohu Board of Directors since December 8, 2011, is a member of the Board of Directors of Microsemi Corporation ("MSC"), a customer of our semiconductor equipment segment. During 2012 and 2011 total sales to MSC were approximately \$1.1 million and \$1.7 million, respectively.

12. Accumulated Other Comprehensive Income (Loss)

Components of accumulated other comprehensive income (loss), on an after-tax basis, were as follows:

<i>(in thousands)</i>	Before Tax amount	Tax (Expense) Benefit	Net-of-Tax Amount
Year Ended December 25, 2010			
Foreign currency translation adjustments	\$ (7,270)	\$ —	\$ (7,270)
Adjustments related to postretirement benefits	(1,386)	(120)	(1,506)
Change in unrealized gain/loss on investments	(134)	51	(83)
Other Comprehensive Loss	<u>\$ (8,790)</u>	<u>\$ (69)</u>	<u>\$ (8,859)</u>
Year Ended December 31, 2011			
Foreign currency translation adjustments	\$ (1,076)	\$ —	\$ (1,076)
Adjustments related to postretirement benefits	1,267	—	1,267
Change in unrealized gain/loss on investments	(6)	—	(6)
Other Comprehensive Income	<u>\$ 185</u>	<u>\$ —</u>	<u>\$ 185</u>
Year Ended December 29, 2012			
Foreign currency translation adjustments	\$ 1,689	\$ —	\$ 1,689
Adjustments related to postretirement benefits	362	(240)	122
Change in unrealized gain/loss on investments	(16)	—	(16)
Other Comprehensive Income	<u>\$ 2,035</u>	<u>\$ (240)</u>	<u>\$ 1,795</u>

COHU, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Quarterly Financial Data (Unaudited)

Quarter		First (a)	Second (a)	Third (a)	Fourth (a)	Year
<i>(in thousands, except per share data)</i>						
Net sales:	2012	\$53,296	\$59,404	\$57,748	\$50,714	\$221,162
	2011	\$89,700	\$80,896	\$71,813	\$66,559	\$308,968
Gross profit:	2012	\$15,539	\$17,664	\$18,126	\$16,649	\$ 67,978
	2011	\$28,815	\$26,547	\$23,355	\$21,412	\$100,129
Net income (loss):	2012	\$ (3,224)	\$ (2,109)	\$ (1,749)	\$ (5,161)	\$ (12,243)
	2011	\$ 6,574	\$ 5,050	\$ 3,376	\$ 719	\$ 15,719
Net income (loss) per share (b):						
Basic	2012	\$ (0.13)	\$ (0.09)	\$ (0.07)	\$ (0.21)	\$ (0.50)
	2011	\$ 0.27	\$ 0.21	\$ 0.14	\$ 0.03	\$ 0.65
Diluted	2012	\$ (0.13)	\$ (0.09)	\$ (0.07)	\$ (0.21)	\$ (0.50)
	2011	\$ 0.27	\$ 0.21	\$ 0.14	\$ 0.03	\$ 0.64

- (a) All quarters presented above were comprised of 13 weeks except the fourth quarter of 2011 which was comprised of 14 weeks.
- (b) The sum of the four quarters may not agree to the year total due to rounding within a quarter.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Cohu, Inc.

We have audited the accompanying consolidated balance sheets of Cohu, Inc. as of December 29, 2012 and December 31, 2011, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 29, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cohu, Inc. at December 29, 2012 and December 31, 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 29, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cohu, Inc.'s internal control over financial reporting as of December 29, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Diego, California
February 28, 2013

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Index to Exhibits

15. (b) The following exhibits are filed as part of, or incorporated into, the 2012 Cohu, Inc. Annual Report on Form 10-K:

<u>Exhibit No.</u>	<u>Description</u>
2.1	Share Purchase and Transfer Agreement, dated December 9, 2012, by and between Delta Design Luxembourg S.à r.l and Schweiter Technologies AG
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. Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 1996
4.1	Amended and Restated Rights Agreement dated November 10, 2006, between Cohu, Inc. and Mellon Investor Services LLC, as Rights Agent, incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 13, 2006, Exhibit 99.1
10.1	Amended Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference to Exhibit 10.1 from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on May 9, 2012*
10.2	Amended Cohu, Inc. 1997 Employee Stock Purchase Plan, incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on May 13, 2011, Exhibit 10.1*
10.3	Cohu, Inc. Deferred Compensation Plan (as amended and restated) incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2008, Exhibit 10.1*
10.4	Form of stock option agreement for use with stock options granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on August 7, 2006*
10.5	Restricted stock unit agreement for use with restricted stock units granted pursuant to the Cohu, Inc. 2005 Equity Incentive Plan incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on April 20, 2006*
10.6	Intel Corporation Purchase Agreement Capital Equipment, Goods and Services, dated April 30, 2012, by and between Delta Design, Inc. and Intel Corporation incorporated herein by reference to Exhibit 99.1 from the Cohu, Inc. Current Report on Form 8-K/A filed August 1, 2012
10.7	Form of Indemnity Agreement, incorporated by reference from the Cohu, Inc. Current Report on Form 8-K filed July 28, 2008, Exhibit 10.1*
10.8	Cohu, Inc. Retiree Health Benefits Agreement (as amended) incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2008, Exhibit 10.2*
10.9	Cohu, Inc. Change in Control Agreement incorporated herein by reference from the Cohu, Inc. Current Report on Form 8-K filed with the Securities and Exchange Commission on December 29, 2008, Exhibit 10.3*

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10.10	Lease agreement, dated December 31, 2012, by and between Ismecca Europe Semiconductor SA and Nerwal SA
21	Subsidiaries of Cohu, Inc.
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 for James A. Donahue
31.2	Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 for Jeffrey D. Jones
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for James A. Donahue
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Jeffrey D. Jones
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: February 28, 2013

By: /s/ James A. Donahue
James A. Donahue
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ James A. Donahue</u> James A. Donahue	President and Chief Executive Officer, Director (Principal Executive Officer)	February 28, 2013
<u>/s/ Jeffrey D. Jones</u> Jeffrey D. Jones	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2013
<u>/s/ William E. Bendush</u> William E, Bendush	Director	February 28, 2013
<u>/s/ Steven J. Bilodeau</u> Steven J. Bilodeau	Director	February 28, 2013
<u>/s/ Harry L. Casari</u> Harry L. Casari	Director	February 28, 2013
<u>/s/ Robert L. Ciardella</u> Robert L. Ciardella	Director	February 28, 2013
<u>/s/ Harold Harrigian</u> Harold Harrigian	Director	February 28, 2013

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COHU, INC.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

Description	Balance at Beginning of Year	Additions Not Charged to Expense	Additions (Reductions) Charged (Credited) to Expense	Deductions/ Write-offs	Balance at End of Year
Allowance for doubtful accounts:					
Year ended December 25, 2010	\$ 1,013	\$ (22)(1)	\$ (429)	\$ 6	\$ 556
Year ended December 31, 2011	\$ 556	\$ (2)(1)	\$ (25)	\$ 66	\$ 463
Year ended December 29, 2012	\$ 463	\$ 1 (1)	\$ (57)	\$ 99	\$ 308
Reserve for excess and obsolete inventories:					
Year ended December 25, 2010	\$25,680	\$ 167 (1)	\$ 1,743	\$ 3,807	\$23,783
Year ended December 31, 2011	\$23,783	\$ 88 (1)	\$ 5,796	\$ 4,092	\$25,575
Year ended December 29, 2012	\$25,575	\$ 611 (2)	\$ 8,884	\$ 7,008	\$28,062

(1) Changes in reserve balances resulting from foreign currency impact.

(2) Changes in reserve balances resulting from foreign currency impact and reclass from other reserves.

SHARE PURCHASE AND TRANSFER AGREEMENT

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SHARE PURCHASE AND TRANSFER AGREEMENT

This Share Purchase and Transfer Agreement (this “**Agreement**”) is made as of December 9, 2012, by and among Delta Design Luxembourg S.à.r.l., a stock corporation organized under the laws of Luxembourg (“**Buyer**”), and Schweiter Technologies AG, Neugasse 10, CH-8810 Horgen, a stock corporation organized under the laws of Switzerland, having its business seat at Horgen, Canton of Zurich, Switzerland, and being registered with the commercial register of the Canton of Zurich under register number CH-020.3.923.513-9/a (“**Seller**”). Buyer and Seller are sometimes individually referred to herein as a “**Party**” and collectively as “**Parties**”.

RECITALS

- A. Seller is the sole shareholder of all the issued and outstanding shares (the “**Shares**”) of Ismeca Semiconductor Holding SA, a stock corporation organized under the laws of Switzerland, having its registered office at La Chaux-de-Fonds, Canton of Neuchâtel, Switzerland, and being registered with the commercial register of the Canton of Neuchâtel under register number CH-645.1.000.058-1 (the “**Company**”).
- B. The Company is engaged in the business of integrated circuit, discrete and LED semiconductor equipment (the “**Business**”).
- C. Seller desires to sell and transfer to Buyer, and Buyer desires to purchase and acquire from Seller, the Shares for the consideration and on the terms set forth in this Agreement.

AGREEMENT

The Parties, intending to be legally bound, agree as follows:

1. DEFINITIONS

Any of the following definitions which refer to ERISA, CERCLA, IRC, IRS and Qualified Plan shall only and exclusively apply to matters involving the Company’s U.S. Subsidiaries (CDF Holding USA and/or Ismeca USA) to the extent that United States Legal Requirements apply.

For purposes of this Agreement, the following terms have the meanings specified or referred to in this Section 1:

“**Accounts Receivable**”--as defined in Section 4.7.

“**Affiliate**” –the “Affiliate” of a Person means any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. The term “control” (including the terms “controlled by” and “under common control with”) means the possession, directly or indirectly, 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

“Agreement”--as defined in Initial Paragraph.

“Antitrust Laws”— the European Community Treaty, the Swiss Cartel Act, the HSR Act and any other antitrust, unfair competition, merger or acquisition notification, or merger or acquisition control Legal Requirements under any applicable jurisdictions, whether federal, state, cantonal, local or foreign.

“Applicable Contract”--any Contract (a) under which the Company has or may acquire any rights, (b) under which the Company has or may become subject to any obligation or liability, or (c) by which the Company or any of the assets owned or used by it is or may become bound.

“Balance Sheet”--as defined in Section 4.3(a).

“Benefit Plans”--as defined in Section 4.12(a).

“Best Efforts”--the efforts that a prudent Person desirous of achieving a result would reasonably use in similar circumstances to ensure that such result is achieved as expeditiously as possible; provided, however, that an obligation to use Best Efforts under this Agreement does not require the Person subject to that obligation to take actions that would result in a Material adverse change in the benefits to such Person of this Agreement and the Contemplated Transactions.

“Breach”--a “Breach” of a representation, warranty, covenant, obligation, or other provision of this Agreement or any instrument delivered pursuant to this Agreement will be deemed to have occurred if there is or has been (a) any inaccuracy in or breach of, or any failure to perform or comply with, such representation, warranty, covenant, obligation, or other provision, or (b) any written claim (by any Person) or other occurrence or circumstance that is or was inconsistent with such representation, warranty, covenant, obligation, or other provision, and the term “Breach” means any such inaccuracy, breach, failure, claim, occurrence, or circumstance.

“Building” -- as defined in Section 6.7(a).

“Building Lease” -- as defined in Section 6.7(b).

“Business”-- as defined in the Recitals of this Agreement.

“Buyer”--as defined in the first paragraph of this Agreement.

“Closing”--as defined in Section 2.2.

“Closing Accounts”-- General Principles.

(a) The Closing Accounts shall be prepared consistent with IFRS and past practice and with the application of the same accounting principles and methodologies as used for the preparation of the audited Financial Statements as at December 31, 2011.

(b) The Closing Accounts shall be drawn up as at midnight (local time) on the Closing Date.

(c) The following shall apply in connection with the establishment of the Closing Accounts:

(i) Going concern: The Closing Accounts shall be prepared on the basis that the Group is a going concern and shall exclude the effect of change of control or ownership.

(ii) Foreign exchange rates: For the purposes of this Agreement, all amounts and positions of the Net Cash and Net Debt in foreign currencies shall be converted to US Dollars at the rate equal to the spot exchange rate published by the OANDA Corporation on its website <http://www.oanda.com/currency/converter/> (Settings: Interbank +/-0%) for the sale of the relevant currency to be converted into US Dollars against payment of US Dollars, as prevailing at 22:00 (UTC) on the Closing Date.

(iii) No account shall be taken of subsequent events taking place after 24:00 hours (local time) on the date of delivery of the draft Closing Accounts by the Buyer to the Seller, unless required to be taken into account under the principles set forth in paragraph (a) above.

“Closing Date” --as defined in Section 2.2.

“Closing Documents”--this Agreement.

“CO” – the Swiss Code of Obligations.

“Company”-- as defined in the Recitals of this Agreement. As used in this Agreement, each reference to “the Company” shall include the Company and each of its direct and indirect Subsidiaries, including but not limited to those subsidiaries listed on Part 4.1(a) of the Disclosure Schedule, unless the context requires otherwise.

“Company Product(s)”-- each and all of the products and services of the Company (including without limitation all software products, machines and modules which are used for backend-processes such as assembly, testing, inspecting and packaging of devices in semiconductor manufacturing), whether currently being sold, distributed or supported, currently under development, or otherwise anticipated to be sold or distributed under any product “road map” of the Company.

“Company Proprietary Rights”--any Proprietary Rights owned by or licensed to the Company.

“Company Source Code”-- any source code, or any portion, aspect or segment of any source code, included in any Company Product, whether owned by or licensed to the Company.

“Competing Business”--as defined in Section 4.28.

“Consent”--any approval, consent, ratification, waiver, or other authorization (including any Governmental Authorization).

“Contemplated Transactions”--all of the transactions contemplated by this Agreement, including:

- (a) the sale and transfer of the Shares to Buyer;
- (b) the execution, delivery, and performance of the Employment Agreements, Building Lease, resignation letters of resigning board members;
- (c) the Building Transfer;
- (d) the performance by Buyer and Seller of their respective covenants and obligations under this Agreement; and
- (e) Buyer’s acquisition and ownership of the Shares and exercise of control over the Company and each of its direct and indirect Subsidiaries.

“Contract”--any agreement, contract, obligation, promise, or undertaking (whether express or implied) that is legally binding.

“Controlled Group Liability”--as defined in Section 4.12(b).

“Copyrights”-- all copyrights, copyrightable works (including, without limitation, software, middleware and firmware), semiconductor topography and mask work rights, and applications for registration thereof, including all rights of authorship, use, publication, reproduction, distribution, performance transformation, moral rights and rights of ownership of copyrightable works, semiconductor topography works and mask works, and all rights to register and obtain renewals and extensions of registrations, together with all other interests accruing by reason of international copyright, semiconductor topography and mask work conventions.

“Damages”--as defined in Section 10.2.

“Data Room” --the virtual data room set up by Seller for the uploading of documents to be reviewed by Buyer and its Representatives in connection with the transactions contemplated by this Agreement.

“Data Room Image Date” -- December 6, 2012.

“Disclosed to Buyer” --a matter shall be deemed “Disclosed to Buyer” if the substance of such matter is (i) disclosed in the Disclosure Schedule, including any written documents annexed thereto or specifically referred to in the Disclosure Schedule, as further set forth in Section 11.7, or (ii) other than to the extent such matter relates to a Fundamental Representation, reasonably apparent in a document that Seller or the Company has uploaded into the Data Room for review (without subsequent modification by Seller or the Company) by Buyer or any of its Representatives prior to the Data Room Image Date; provided that, in each case of (i) and (ii), the relevant fact, matter or circumstance can be identified as a Breach and the impact of such

fact, matter or circumstance on the relevant representation and warranty can be assessed by a reasonable person based on the face of the relevant disclosed document when reading all pages of the same, but without making any further inquiries or cross examinations of other documents, facts, matters or circumstances.

“Disclosure Schedule”--the Disclosure Schedule delivered by Seller to Buyer concurrently with the execution and delivery of this Agreement.

“Employment Agreements”--as defined in Section 6.17.

“Encumbrance”-- any charge, claim, community property interest, condition, equitable interest, lien, option, pledge, security interest, hypothecation, mortgage, encumbrance, right of first refusal, preemptive right, title retention or title reversion, or restriction of any kind, including any restriction on use, voting, transfer, receipt of income, or exercise of any other attribute of ownership.

“Environment”--soil, land surface or subsurface strata, surface waters (including navigable waters, ocean waters, streams, ponds, drainage basins, and wetlands), groundwaters, drinking water supply, stream sediments, ambient air (including ambient air and indoor air), plant and animal life, and any other environmental medium or natural resource.

“Environmental, Health, and Safety Liabilities”--any cost, damages, expense, liability, obligation, or other responsibility arising from or under Environmental Law or Occupational Safety and Health Law, including liabilities consisting of or relating to:

(a) any environmental, health, or safety matters or conditions (including on-site or off-site contamination, occupational safety and health, and regulation of or exposure to chemical substances or products);

(b) fines, penalties, judgments, awards, settlements, legal or administrative proceedings, damages, losses, claims, demands and response, investigative, remedial, or inspection costs and expenses arising under Environmental Law or Occupational Safety and Health Law; or

(c) financial responsibility under Environmental Law or Occupational Safety and Health Law for non-compliance, cleanup costs or corrective action, including any investigation, cleanup, removal, containment, or other remediation or response actions (**“Cleanup”**) and for any natural resource damages; or

The terms “removal,” “remedial action,” and “response action,” include the cleanup or removal of released Hazardous Materials from the environment; actions taken to prevent, minimize or mitigate the threat of release of Hazardous Materials into the environment; actions to investigate, monitor, assess and evaluate the release or threat of release of Hazardous Materials and related consequences; the treatment or disposal of material affected by Hazardous Materials released into the environment; other actions to prevent, minimize or mitigate damage or adverse impacts to the public health or welfare, property, the environment or natural resources which may otherwise result from a release or threat of release of Hazardous Materials; and permanent

remedies taken to prevent, contain, minimize or mitigate the release of Hazardous Materials so that they do not migrate or otherwise adversely impact present or future public health or welfare, property, the environment or natural resources, provided, however, that all such actions are required under any Legal Requirement.

“Environmental Law”--any Legal Requirement that pertains to the regulation, protection or preservation of or imposes standards of conduct relating to the Environment, natural resources or human health and safety as affected by environmental conditions, or that pertains to the handling, use, manufacturing, processing, storage, treatment, transportation, discharge, release, emission, disposal, use, re-use, recycling, or other management of Hazardous Materials, including the remediation of Hazardous Materials in the Environment. Without limiting the generality of the foregoing, Environmental Law includes any Legal Requirement that requires or relates to:

- (a) advising appropriate authorities, employees, and the public of intended or actual Releases of Hazardous Materials, violations of discharge limits, or other prohibitions and of the commencements of activities, such as resource extraction or construction, that could have significant impact on the Environment;
- (b) preventing or reducing to acceptable levels the Release of Hazardous Materials into the Environment;
- (c) reducing the quantities, preventing the release, or minimizing the hazardous characteristics of wastes that are generated;
- (d) assuring that products are designed, formulated, packaged, and used so that they do not present unreasonable risks to human health or the Environment when used or disposed of;
- (e) protecting resources, species, or ecological amenities;
- (f) reducing to acceptable levels the risks inherent in the transportation, Treatment, storage or disposal of Hazardous Materials;
- (g) cleaning up Hazardous Materials that have been Released, preventing or mitigating the threat of Release, or paying the costs of such clean up, prevention or mitigation; or
- (h) imposing liability for personal or bodily injury, property damage, and damages to natural resources or the Environment.

“ERISA”--the Employee Retirement Income Security Act of 1974 or any successor law, and regulations and rules issued pursuant to that Act or any successor law.

“ERISA Affiliate”--as defined in Section 4.12(b).

“Exchange Act” --the Securities Exchange Act of 1934, as amended.

“Facilities”--any real property, leaseholds, or other interests currently or formerly owned or operated by the Company and any buildings, plants, structures, or equipment (including motor vehicles, tank cars, and rolling stock) currently or formerly owned or operated by the Company.

“Financial Statements”--as defined in Section 4.3(a).

“Fundamental Representations” --the representations and warranties under Sections 4.1 (Organization, Good Standing, Capital Structure and Shares), 4.2 (a), (b)(i), (b)(ii), (b)(iii), (b)(vii), (c) and (d) (Authority; No Conflict), 4.10 (Taxes) and 4.21 (Intellectual Property).

“Governmental Authorization”--any approval, consent, license, permit, waiver, or other authorization issued, granted, given, or otherwise made available by or under the authority of any Government Entity or pursuant to any Legal Requirement.

“Government Entity”--any:

(a) nation, state, canton, county, city, town, village, district, or other jurisdiction of any nature;

(b) federal, state, cantonal, local, municipal, foreign, or other government;

(c) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, instrumentality, subdivision, department, official, or entity, any court or other tribunal, and any tax authority), and any commercial or similar entities that the government controls or owns (whether partially or completely), including any state-owned and state-operated companies or enterprises, any international organizations such as the United Nations or the World Bank, and any political party;

(d) multi-national organization or body; or

(e) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature.

“Hazardous Activity”--the distribution, generation, handling, importing, exporting, manufacturing, processing, production, refinement, Release, storage, transfer, transportation, distribution, treatment, discharge, emission, disposal, or use (including any withdrawal or other use of groundwater), re-use, recycling or other management of Hazardous Materials in, on, under, about, or from the Facilities or any part thereof, and any other act, business, operation, or thing that increases the danger, or risk of danger, or poses an unreasonable risk of harm to persons, property, the Environment or natural resources on or off the Facilities, or that may affect the value of the Facilities or the Company.

Hazardous Materials--any substance, material or waste (regardless of physical form or concentration) that (a) is hazardous, toxic, infectious, explosive, radioactive, carcinogenic, mutagenic, ignitable, corrosive, or reactive or otherwise harmful to human health, the Environment or natural resources, or (b) is or becomes identified, that is listed, defined, designated or otherwise regulated pursuant to environmental Legal Requirements. Without

limiting the generality of the foregoing, the term “Hazardous Materials” shall include any substance, material or waste which is identified or regulated as a “solid waste,” “hazardous waste,” “hazardous material,” “hazardous substance,” “hazardous chemical,” “extremely hazardous waste,” “restricted hazardous waste,” pollutant,” “contaminant,” “toxic waste” or “toxic substance” under any provision of Environmental Law and includes petroleum, petroleum products and by-products and all derivatives thereof or synthetic substitutes therefore, asbestos or asbestos-containing materials and presumed asbestos-containing materials, radioactive materials and polychlorinated biphenyls.

“**HSR Act**”--the Hart-Scott-Rodino Antitrust Improvements Act of 1976 or any successor law, and regulations and rules issued pursuant to that Act or any successor law.

“**IFRS**”--International Financial Reporting Standards, including the early adoption of IAS 19 revised.

“**Indemnified Buyer Persons**”--as defined in Section 10.2.

“**Interest**”-- shall accrue and be payable from the due date of any amount payable until the date on which such payment is actually made at a rate of the 3-month US\$-LIBOR (as per Reuters on the relevant date the relevant payment is due at 11:00 a.m. C.E.T.) plus 400 basis points per annum (calculated on a 30/360 basis).

“**Interim Balance Sheet**”--as defined in Section 4.3(a).

“**Investment**”--as defined in Section 6.11.

“**IRC**”--the United States Internal Revenue Code of 1986 or any successor law, and regulations issued by the IRS pursuant to the Internal Revenue Code or any successor law.

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

“**Issued Patents**”-- all patents, issued or granted patents (including, without limitation, design patents, utility models and design rights), reissued or reexamined patents, revivals of patents, registrations of patents and extensions and divisionals thereof, regardless of country or formal name, issued or granted by a Registration Office, including without limitation the United States Patent and Trademark Office, the European Patent Office or any other applicable or similar Government Entity.

“**Knowledge of Buyer**” --“Knowledge of Buyer” or any variant thereof, means as to a particular matter, the actual knowledge of the individuals set forth on Schedule 1.1, provided, however, that each of the foregoing individuals shall be deemed to have actual knowledge of a fact or matter if, in applying the standard of care to be applied by a conscientious business person (*Sorgfalt eines ordentlichen Kaufmanns*) in the respective function, such individual would be expected to discover or become aware of such fact or matter.

“Knowledge of the Company” --“Knowledge of the Company” or any variant thereof, means as to a particular matter, the actual knowledge of the individuals set forth on Schedule 1.2, provided, however, that each of the foregoing individuals shall be deemed to have actual knowledge of a fact or matter if, in applying the standard of care to be applied by a conscientious business person (Sorgfalt eines ordentlichen Kaufmanns) in the respective function, such individual would be expected to discover or become aware of such fact or matter.

“Legal Requirement”-- any federal, state, cantonal, local, municipal, foreign, international, multinational, or other administrative order, constitution, law, rule, writ, injunction, ordinance, principle of common law, regulation, statute, or treaty imposing upon the Company an obligation to be complied with. The incurring of reasonable entrepreneurial risks within rooms of discretion set forth by Legal Requirements shall not be deemed to be in conflict with Legal Requirements.

“Material”—shall include, but not be limited to, anything having a value equal to or greater than US\$ 75,000 and, as the context permits, an event, payment, violation, inaccuracy, circumstance or other matter shall be deemed to be “Material” if such event, payment, violation, inaccuracy, circumstance or other matter should result in an effect of US\$ 75,000 or more.

“Material Adverse Effect”--an event, change, violation, inaccuracy, circumstance or other matter shall be deemed to have a “Material Adverse Effect” on Seller, Buyer or the Company if such event, change, violation, inaccuracy, circumstance or other matter (individually or taken together with all other related events, changes, violations, inaccuracies, circumstances or other matters) had or would reasonably be expected to have a Material adverse effect on (i) the business, condition, capitalization, assets, liabilities, operations, prospects or financial performance of Buyer, the Company or any of its Subsidiaries; (ii) the ability of Seller or the Company or its Subsidiaries to consummate the Contemplated Transactions; or (iii) Buyer’s ability to vote, receive dividends with respect to or otherwise exercise ownership rights with respect to the Shares, the Company, its Subsidiaries and their respective assets.

“Material Contract”--as defined Section 4.16(b).

“Multiemployer Plan”--as defined in Section 4.12(i).

“Multiple Employer Plan”--as defined in Section 4.12(i).

“Net Cash” shall mean the US Dollar amount as at Closing of the sum (without duplication) of (i) the Company’s cash on hand, cash on bank and postal accounts, time deposits at banks, marketable securities, bank notes and bank checks, and other cash amounts as shown under the following account numbers in the Company’s accounting and (ii) all accrued interest on such balances:

Cash

1111	Cash on hand
1112	Cash on bank & postal accounts
1113	Time deposits at banks (with maturity up to 3

months)
1114 Marketable securities

“Net Debt” shall mean the US Dollar amount as at Closing of the sum of the following interest bearing liabilities: (A) all indebtedness of the Company for borrowed money or advancement of funds but excluding customer advances made in the Ordinary Course of Business; (B) any other indebtedness owed by the Company under any credit agreement or facility, or evidenced by any note, bond, debenture or other debt security or instrument made or issued by the Company or for which the Company is otherwise responsible but excluding (i) hedging contracts and (ii) bank guarantees for customer advance payments and customs duties, both (i) and (ii) entered into in to Ordinary Course of Business, (C) all indebtedness secured by a security interest, pledge or mortgage on the Company’s assets; (D) all accrued interest, premium and prepayment penalties payable in respect of any of the foregoing, (E) Bonus Related Costs (as defined in Section 6.3(a)), and other debt amounts as shown under the following account numbers in the Company’s accounting:

Debt

3111	Bank overdrafts
3112	Short-term bank loans (due within one year)
3113	Current portion of long-term bank loans
3114	Mortgage loans (portion due within one year)
3121	Financial leasing contracts, due within one year
3122	Other short-term loans (due within one year)
3611	Long-term bank loans
3612	Leasing liability (due in more than one year)
3613	Mortgage loans (portion due in more than one year)

“Occupational Safety and Health Law”--any Legal Requirement designed to provide safe and healthy working conditions and to reduce occupational safety and health hazards, and any program, whether governmental or private (including those promulgated or sponsored by industry associations and insurance companies), designed to provide safe and healthy working conditions.

“Off-Shelf Software” -- as defined in Section 4.21(b)(ii).

“Open Source Software” -- as defined in Section 4.21(b)(iv).

“Order”--any award, decision, injunction, judgment, order, ruling, subpoena, or verdict entered, issued, made, or rendered by any court, administrative agency, or other Government Entity or by any 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:

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

(b) such action is not required to be authorized by the board of directors of such Person (or by any Person or group of Persons exercising similar authority) and is not required to be specifically authorized by the parent company (if any) of such Person; and

(c) such action is similar in nature and magnitude to actions customarily taken, without any authorization by the board of directors (or by any Person or group of Persons exercising similar authority), in the ordinary course of the normal day-to-day operations of other Persons that are in the same line of business as such Person.

“Organizational Documents”--(a) the articles of association, certificate of incorporation, bylaws and similar organizational documents of a corporation; (b) the partnership agreement and any statement of partnership of a general partnership; (c) the limited partnership agreement and the certificate of limited partnership of a limited partnership; (d) the rules of procedure for managing directors; (e) the shareholder or stockholder agreements; (f) any charter or similar document adopted or filed in connection with the creation, formation, or organization of a Person; and (g) any amendment to any of the foregoing.

“Patents”--the Issued Patents and the Patent Applications.

“Patent Applications”-- all published or unpublished, non-provisional and provisional patent applications, reexamination proceedings, applications for certificates of invention and priority rights, in any country and regardless of formal name, substitutions, continuations, continuations in part, divisions, renewals, revivals, reissues, re-examinations and extensions.

“Person”--any individual, entity or Government Entity.

“Plan”--as defined in Section 4.12(a).

“Pre-Closing Period”--as defined in Section 6.1.

“Proceeding”-- any action, arbitration, audit, hearing, investigation, litigation, or suit (whether civil, criminal, administrative, investigative, or informal) commenced, brought, conducted, or heard by or before, or otherwise involving, any Government Entity or arbitrator.

“Proprietary Rights”-- any and all of the following in any country: (i) Issued Patents, (ii) Patent Applications, (iii) Registered Trademarks, business names and domain names and domain name registration, (iv) Copyrights, (v) Trade Secrets and (vi) other intellectual property rights recognized in any applicable jurisdiction, provided that such other intellectual property rights shall not include ideas that have not been documented and specified

“Proprietary Rights Agreement”--as defined in Section 4.19(b).

“Purchase Price”--as defined in Section 3.1.

“Qualified Plans”--as defined in Section 4.12(f).

“Registered Copyrights”-- all Copyrights for which registrations have been obtained or applications for registration have been filed in or with a Registration Office.

“Registered Trademarks”-- all Trademarks for which registrations have been obtained or applications for registration have been filed in or with a Registration Office.

“Registration Office” means, collectively, the United States Patent and Trademark Office, United States Copyright Office, the European Patent Office and all equivalent foreign patent, trademark, copyright offices or other Government Entity.

“Related Person”--with respect to a particular individual:

- (a) each other member of such individual’s Family;
- (b) any Person that is directly or indirectly controlled by such individual or one or more members of such individual’s Family;
- (c) any Person in which such individual or members of such individual’s Family hold (individually or in the aggregate) a Material Interest; and
- (e) any Person with respect to which such individual or one or more members of such individual’s Family serves as a director, officer, partner, executor, or trustee (or in a similar capacity).

With respect to a specified Person other than an individual:

- (f) any Person that directly or indirectly controls, is directly or indirectly controlled by, or is directly or indirectly under common control with such specified Person;
- (g) any Person that holds a Material Interest in such specified Person;
- (h) each Person that serves as a director, officer, partner, executor, or trustee of such specified Person (or in a similar capacity);
- (i) any Person in which such specified Person holds a Material Interest;
- (j) any Person with respect to which such specified Person serves as a general partner or a trustee (or in a similar capacity); and
- (k) any Related Person of any individual described in clause (b) or (c).

For purposes of this definition, (a) the **“Family”** of an individual includes (i) the individual, (ii) the individual’s spouse, (iii) any other natural person who is related to the individual or the individual’s spouse within the second degree, and (iv) any other natural person who resides with

such individual, and (b) “**Material Interest**” means direct or indirect beneficial ownership (as defined in Rule 13d-3 under the Exchange Act of voting securities or other voting interests representing at least 5% of the outstanding voting power of a Person or equity securities or other equity interests representing at least 5% of the outstanding equity securities or equity interests in a Person.

“**Release**”--any spilling, leaking, emitting, emptying, discharging, depositing, escaping, leaching, migrating or dumping of Hazardous Materials, including the abandonment of containers of Hazardous Materials, made in violation of environmental Legal Requirements.

“**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.

“**Return**”--as defined in Section 4.10(b).

“**Seller**”-- as defined in the first paragraph of this Agreement.

“**Shares**”--as defined in the Recitals of this Agreement.

“**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 that corporation’s or other Person’s board of directors or similar governing body, or otherwise having the power to direct the business and policies of that corporation or other Person (other than securities or other interests having such power only upon the happening of a contingency that has not occurred) are held by the Owner or one or more of its Subsidiaries; when used without reference to a particular Person, “Subsidiary” means any direct or indirectly owned Subsidiary of the Company.

“**Tax**”--as defined in Section 4.10(a).

“**Threat of Release**”--a substantial likelihood of a Release that may require action in order to prevent or mitigate damage to the Environment, natural resources or human health or safety that may result from such Release.

“**Threatened**”-- a claim, Proceeding, dispute, action, or other matter will be deemed to have been “Threatened” if any demand or statement has been made in writing or any notice has been given in writing, or if, as is known by a Person, any other event has occurred or any other circumstances exist, that would lead a reasonable Person to conclude that such a claim, Proceeding, dispute, action, or other matter is likely to be asserted, commenced, taken, or otherwise pursued in the future.

“**Trade Secrets**”-- all product specifications, manufacturing specifications, operating specifications, data (including without limitation technical data), know how, processes, designs, photographs, graphs, drawings, inventions (whether or not patentable; to the extent documented), research and development results (to the extent documented), manufacturing or distribution methods and processes, customer lists, customer requirements, price lists, market studies,

business plans, computer software and any other documented and specified information, (i) that is a trade secret and/or (ii) which the owner thereof has treated as a trade secret.

“Trademarks”-- all trademarks, service marks, marks, logos, insignias, designs, names or other symbols and goodwill associated with each of the foregoing.

“Transaction Expenses” --means all out-of-pocket costs, fees and expenses incurred but unpaid by the Company and those for which the Company has agreed to pay on behalf of Seller, in each case that arise from the negotiation of this Agreement and the other transaction documents entered into in connection with this Agreement and the consummation of the transactions contemplated hereby and thereby, whether or not billed or accrued, and including any brokerage fees, commissions, finders’ fees or financial advisory fees and any fees and expenses of counsel or accountants.

2. SALE AND TRANSFER OF SHARES; CLOSING

2.1 **Shares.** Subject to the terms and conditions of this Agreement, Seller undertakes to sell to Buyer and Buyer undertakes to purchase from Seller at Closing the Shares, subject to the completion of the Closing set forth in Section 2.2.

2.2 **Closing.** The closing of the purchase, sale and transfer of the Shares (the **“Closing”**) provided for in this Agreement shall take place by execution of the Closing Actions set forth in Section 2.3 on December 31, 2012 or at such other time as may be mutually agreed by Buyer and Seller (the **“Closing Date”**). The Closing shall take place at the offices of Schellenberg Wittmer, Löwenstrasse 19, 8021 Zurich, Switzerland, or at such other location or by remote closing, as the Parties agree.

2.3 **Closing Actions.** At the Closing the following actions shall be taken in the following sequence and in mutual interdependence from each other (*Zug um Zug*):

(a) Seller shall present and deliver to Buyer the following documents:

(i) certificates representing the Shares, duly endorsed in blank;

(ii) the unanimous resolution of the Company’s board of directors consenting to the transfer of the Shares to Buyer and to the registration of Buyer as the sole shareholder of the Shares in the share register of the Company as of the Closing Date;

(iii) the share register of the Company in which Buyer has been registered as holder of the Shares;

(iv) an excerpt of the commercial register of the Canton of Zurich (or any equivalent official document) evidencing the signing authority of Seller’s signatories;

(v) a resolution passed by Seller’s board of directors approving, and authorizing the execution, delivery and performance of this Agreement on behalf of Seller;

(vi) the resignation letters as per the drafts attached hereto as Schedule 2.3(a)(vi) of the Persons listed therein (the “**Resigning Directors**”) as members of the board of directors of the Company, and a written confirmation, duly signed on behalf of Seller and the Company in form and substance satisfactory to Buyer, to the effect that all Closing Conditions have been fully satisfied or waived by Seller, with the relevant documentary evidence, all as set forth in Section 7;

(vii) evidence reasonably satisfactory to the Buyer that the Building Transfer Condition has been met (as defined in Section 6.7(b)); and

(viii) evidence reasonably satisfactory to the Buyer that the Dividend Filings pursuant to Section 6.3(b) have been duly made, including, but not limited to, copies of the filed Forms 102 and 106 and the evidence of the mailing of same.

(b) Following the actions by Seller set forth in the preceding Subsection, Buyer shall:

(i) pay to Seller by wire transfer, to a bank account with a Swiss bank to be designated by Seller, the Purchase Price in U.S. Dollars;

(ii) deliver to Seller documentary evidence of the completed wire transfer to Seller;

(iii) deliver to Seller an excerpt of the commercial register (or any equivalent official document) evidencing the signing authority of Buyer’s signatories;

(iv) deliver to Seller a resolution passed by Buyer’s board of directors approving, and authorizing the execution, delivery and performance of this Agreement on behalf of Buyer;

(v) issue a written confirmation, duly signed on behalf of Buyer in form and substance satisfactory to Seller, to the effect that all Closing Conditions have been fully satisfied or waived by Buyer, with the relevant documentary evidence, all as set forth in Section 8.

2.4 Discharge of Directors and Appointment/Election of New Directors. Immediately after the Closing, but no later than five (5) business days from the Closing, Buyer shall cause each Company to:

(a) hold such corporate meetings as are necessary pursuant to applicable laws and/or statutes to discharge the Resigning Directors;

(b) use all its votes or cause the relevant shareholders to use all their votes in favor of the discharge of the Resigning Directors at such corporate meetings;

(c) cancel the signatory powers of the Resigning Directors; and

(d) appoint and elect new directors, if required.

3. PURCHASE PRICE AND PURCHASE PRICE ADJUSTMENT

3.1 **Purchase Price.** The purchase price (the “**Purchase Price**”) for the sale and transfer of the Shares shall be an aggregate amount equal to:

- (a) US\$54,500,000 (US-Dollars Fifty-Four Million Five Hundred Thousand).
- (b) plus (i) if Estimated Net Cash exceeds Estimated Net Debt, the amount of such difference, or minus (ii) if Estimated Net Debt exceeds Estimated Net Cash, the amount of such difference.
- (c) minus US\$400,000 if the Building Transfer Condition (as defined in Section 6.7(b)) is not met before December 22, 2012.

Subject to the terms and conditions of this Agreement, and in reliance on the representations, warranties, covenants and agreements of Seller made hereunder, the Purchase Price shall be payable by Buyer on the Closing Date in accordance with Section 2.3 (b)(i) and shall be paid by wire transfer of immediately available funds (with any wire or bank charges and fees with respect to such wire transfer to be borne by Buyer) to an account designated by Seller.

3.2 Calculation of Estimated Net Cash and Estimated Net Debt.

(a) No later than five (5) business days prior to the anticipated Closing Date, Seller shall provide Buyer with its good faith estimate of the Net Cash, and the Net Debt as at the Closing Date, broken down line by line as set forth in Schedule 3.2(a), to be amended by an additional line for the Bonus Related Costs, calculated in accordance with the Closing Accounts, the terms of this Agreement and IFRS (the “**Estimated Net Cash**” and the “**Estimated Net Debt**” respectively), together with all information and documents relating to, or which served as a basis for, the calculation of, Seller’s estimate of the Estimated Net Cash and the Estimated Net Debt, respectively.

(b) For the purpose of Seller’s calculation of the Estimated Net Cash and the Estimated Net Debt all balances stated in foreign currencies shall be converted to US Dollars at the rate equal to the spot exchange rate published by the OANDA Corporation on its website <http://www.oanda.com/currency/converter/> (Settings: Interbank +/-0%) for the sale of the relevant currency to be converted into US Dollars against payment of US Dollars, as prevailing at 22:00 (UTC) on the tenth business day prior to the Closing Date.

3.3 Purchase Price Adjustment.

(a) The Purchase Price shall be adjusted to the extent that the Final Net Cash, and Final Net Debt at the Closing Date, as determined in this Section 3.3, are different than the Estimated Net Cash and Estimated Net Debt provided by Seller pursuant to Section 3.2 (the “**Purchase Price Adjustment**”).

(b) Within thirty (30) days following the Closing Date, Buyer shall deliver to Seller a statement (the “**Closing Statement**”) setting forth the Net Debt and Net Cash as at the Closing Date, determined in accordance with Section 3.2.

(c) If Seller disagrees with the Closing Statement, Seller shall notify Buyer in writing (the “**Seller’s Objection**”) within twenty (20) days (the “**Objection Period**”) from receipt of the Closing Statement. Such notice shall substantiate and specify in detail the reasons for Seller’s objections and include specific proposals for adjustment of each disputed item in the Closing Statement.

(d) In the event that Seller does not deliver a Seller’s Objection during the Objection Period, the Net Cash and the Net Debt in the Closing Statement shall be deemed to be the final Net Cash (the “**Final Net Cash**”) and Net Debt (the “**Final Net Debt**”), and the Purchase Price Adjustment shall be paid as set forth in Section 3.3(h) below.

(e) If Seller duly delivers a Seller’s Objection during the Objection Period pursuant to Section 3.3(c), Buyer and Seller shall attempt to resolve their differences and reach an agreement within twenty (20) days following delivery of such Seller’s Objection. If the Parties fail to resolve their differences during such twenty (20) day period, either Party may request that an independent accounting firm (the “**Independent Expert**”) review and finally decide the final Purchase Price Adjustment. The Independent Expert shall be appointed by joint decision of both Parties within ten (10) days from the request of either Party. If the Parties fail to agree on such appointment, the accounting firm to serve as Independent Expert shall be appointed by the then Chairman of the Zurich Chamber of Commerce.

(i) The Independent Expert shall establish independently, on behalf of all Parties and on the terms set forth in this Agreement, the Final Net Cash, the Final Net Debt and the Purchase Price Adjustment. In so doing, the Independent Expert shall serve as an expert (*Schiedsgutachter*) as that term is defined in article 189 of the Swiss Code of Civil Procedure, and not as an arbitrator, and the Independent Expert’s determination of any subject matter falling within the scope of the Independent Expert’s mandate shall be final and binding on the Parties, except in the event of a manifest error on the part of the Independent Expert (in which case the relevant part of his or her determination shall be void and the matter be remitted to the Independent Expert for correction).

(ii) The Parties shall procure that the Independent Expert will be furnished with all documents and information relating to the determination of the Final Net Cash, the Final Net Debt and the Purchase Price Adjustment as the Independent Expert may reasonably request.

(iii) The Independent Expert shall make his, her or its determination as soon as reasonably practicable, but no later than twenty (20) business days from the date of appointment.

(iv) The procedure as determined by the Independent Expert shall comply with the requirements of due process under Swiss law; in particular, the Independent Expert shall:

- (A) give the Parties a reasonable opportunity to make written and oral presentations to the Independent Expert with respect to the disputed items;
- (B) require that each Party provide the other with a copy of any written presentations at the same time as such presentations are made available to the Independent Expert;
- (C) permit each Party to be present while oral submissions are being made by the other Party or while evidence is gathered by the Independent Expert, including meetings and discussions with the employees of the Company; and
- (D) conduct the proceedings in English.
- (v) The Independent Expert shall, and shall procure that its accountants, assistants and other advisors shall, keep all information and documents provided to the Independent Expert pursuant to this Agreement confidential and shall not use the same for any other purpose, except for disclosure or use in connection with the determination of the final Purchase Price Adjustment.
- (vi) Each Party shall bear half of the costs and expenses incurred in connection with the appointment of the Independent Expert and the determination of the Purchase Price Adjustment.
- (f) Buyer and Seller each agree to reasonably cooperate and assist in the determination of the Final Net Cash and Final Net Debt under this Section 3.3, including by making available to the other Party and its representatives, to the extent reasonably requested, reasonable access (during usual working hours) to books, records, work papers, personnel and representatives in connection with such other Party's preparation and review of the Closing Statement.
- (g) For the purpose of calculating the Final Net Cash and the Final Net Debt, all balances stated in foreign currencies shall be converted to US Dollars at the rate equal to the spot exchange rate published by the OANDA Corporation on its website <http://www.oanda.com/currency/converter/> (Settings: Interbank +/-0%) for the sale of the relevant currency to be converted into US Dollars against payment of US Dollars, as prevailing at 22:00 (UTC) on the Closing Date.
- (h) Within ten (10) days from the determination of the Final Net Cash and Final Net Debt, any (i) positive Purchase Price Adjustment shall be due and payable to the Seller, and (ii) any negative Purchase Price Adjustment shall be due and payable to the Buyer.
- 3.4 **Allocation of Purchase Price.** Buyer and Seller have agreed to allocate the Purchase Price in accordance with the allocation schedule set forth on Schedule 3.4 hereto.

4. REPRESENTATIONS AND WARRANTIES OF SELLER

In relation to the Company, Seller hereby represents and warrants to Buyer that the following representations and warranties are true and accurate in all respects and not misleading as of the date of this Agreement, and will be true and accurate in all respects and not misleading at and through the fulfillment of the Closing as if they had been made or given at Closing.

As used in this Section 4 (other than for Section 4.1), references to “the Company” shall include the Company and each of its direct and indirect Subsidiaries, unless the context requires otherwise.

4.1 Organization, Good Standing, Capital Structure and Shares.

(a) Part 4.1(a) of the Disclosure Schedule contains a complete and accurate list of the Company and each of its Subsidiaries setting forth its name, its jurisdiction of incorporation, other jurisdictions in which it is authorized to do business, and its capitalization (including the identity of each shareholder and the number of shares held by each).

(b) The Company and each of its Subsidiaries is duly organized and validly existing, with full corporate power and authority of the Company and each of its Subsidiaries to conduct its business as it is now being conducted, to own or use the properties and assets that it purports to own or use, and to perform all its obligations under Applicable Contracts. Each of the Subsidiaries other than Ismeca Europe Semiconductor SA is in good standing under the laws of its jurisdiction of formation. The Company and each of its Subsidiaries have been validly established in the legal entity forms indicated in Part 4.1(a) of the Disclosure Schedule and continue to exist and are entitled to carry on the Business in its current form. The Company and each of its Subsidiaries is duly qualified to do business as a foreign corporation and in good standing under the laws of each state or other jurisdiction in which either the ownership or use of the properties owned or used by it, or the nature of the activities conducted by it, requires such qualification or good standing.

(c) The articles of incorporation and the excerpt from the commercial register (or any equivalent official documents) as Disclosed to Buyer completely and correctly reflect the current factual and legal situation of the Company and each of its Subsidiaries. There are no further applications to the commercial register that are not (yet) reflected in such documents Disclosed to Buyer. Except as otherwise Disclosed to Buyer, the Business operations now being conducted by the Company and its Subsidiaries have not been conducted under any name other than its present name. There are no shareholder resolutions changing the Organizational Documents of the Company and each of its Subsidiaries which have not yet been effectuated and which are not yet reflected in the commercial register.

(d) True and correct copies of the Organizational Documents of the Company and each of its Subsidiaries, as is currently in effect, have been Disclosed to Buyer.

(e) Part 4.1(e) of the Disclosure Schedule contains a true and complete list of all powers-of-attorney issued by the Company and each of its Subsidiaries, other than those

which are shown in the excerpt of the commercial register or which are limited to individual transactions in the ordinary course of business, consistent with past practice.

(f) The registered share capital of the Company and each of its Subsidiaries has been fully paid up, there are no obligations to pay in additional capital, and no hidden contribution of assets has occurred. No (cash or non-cash) repayments, including hidden ones, were made from the Company's nor any of its Subsidiary's assets necessary for the preservation of the registered share capital.

(g) The Shares represent all of the issued and authorized share capital of the Company and all issued and outstanding shares of the Company. No further capital, non-voting stock, convertible securities or similar rights in the Company have been or will by the Closing Date be created or issued or agreed to be issued. Part 4.1(a) of the Disclosure Schedule lists all of the issued and authorized share capital and all issued and outstanding shares of each of the Company's Subsidiaries. There are no securities or other financial instruments of the Company nor any of its Subsidiaries that are convertible into or exchangeable for shares of the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries has any obligation to issue, and no third party has any right to acquire from the Company, any of its Subsidiaries or from Seller, any shares or securities convertible into or exchangeable for such shares. There are no outstanding options, warrants, agreements, or other obligations of any kind which, upon the delivery of the Shares provided for in Section 2.3 of this Agreement, would restrict the right of Buyer to transfer, vote or to receive dividends or the proceeds of liquidation with respect to its equity interest in the Company. There are no outstanding obligations of the Company or its Subsidiaries to repurchase or otherwise acquire shares.

(h) Seller is the sole and unrestricted legal and economic owner of the Shares and the Shares are duly authorized and validly issued. The Company is the direct or indirect sole and unrestricted legal and economic owner of the shares of each Subsidiary of the Company, and each of such shares are duly authorized and validly issued. The Shares and the shares of each of the Company's Subsidiaries are free of any liens, encumbrances or other rights of third parties and no claims exist regarding the granting of such rights or the sale and transfer of the Shares or any of the shares of each of the Company's Subsidiaries. There are no pre-emptive rights, rights of first refusal, options or other rights of any third party (including contingent rights) to purchase or acquire any of the Shares or any of the shares of any of the Company's Subsidiaries. None of the Company, any of its Subsidiaries, or Seller is bound by any agreement, including voting trust agreements or sub-participation agreements, or any restriction or obligation relating to any rights under the Shares or the shares in any Subsidiary of the Company.

(i) Other than as set forth in the Company's articles of incorporation, Seller is neither directly nor indirectly subject to any restrictions on transfer or on any other disposition regarding the Shares.

(j) Neither the Company nor any of its Subsidiaries holds or is obligated to acquire any participation or sub-participation in another enterprise or other legal entity. Neither the Company nor any of its Subsidiaries is bound by any intra-group agreement among themselves or with Seller or any of its Affiliates.

(k) No insolvency proceedings were initiated against Seller or the Company, or any of its Subsidiaries, nor are there any circumstances present which would justify the initiation of such proceedings in the future. Neither Seller nor the Company, nor any of its Subsidiaries, have entered into any moratorium agreement or similar agreement with their creditors, have stopped or suspended payment of their debts, become unable to pay their debts or otherwise become insolvent in any jurisdiction. None of the assets of the Company or any of its Subsidiaries has been seized or confiscated by or on behalf of any third party nor are any foreclosure, forfeiture, execution or enforcement proceedings pending or threatened with respect to any of the assets of the Company or its Subsidiaries. There are no facts or events which may reasonably be expected to result in any proceedings or other events as referred to in this Section 4.1(k).

(l) Neither the Company nor any of its Subsidiaries is obliged to any payments or other obligations vis-à-vis Seller, and Seller is not obliged to any payments or other obligations vis-à-vis the Company or any of its Subsidiaries.

4.2 Authority; No Conflict.

(a) Upon the execution of the Closing Documents, the Closing Documents will constitute the legal, valid, and binding obligations of Seller, enforceable against Seller in accordance with their respective terms. The execution of the Closing Documents by Seller and the performance of the Contemplated Transactions do not conflict with any provision of the Organizational Documents of Seller. Seller has the absolute and unrestricted right, power, authority, and capacity to execute and deliver the Closing Documents and to perform the obligations under the Closing Documents.

(b) Neither the execution of this Agreement nor the consummation or performance of any of the Contemplated Transactions will, directly or indirectly:

(i) contravene, conflict with, or result in a violation of (A) any provision of the Organizational Documents of the Company, or (B) any resolution adopted by the board of directors or Seller;

(ii) contravene, conflict with, or result in a violation of, or give any Government Entity or other Person the right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which the Company or Seller, or any of the assets owned or used by the Company, may be subject;

(iii) contravene, conflict with, or result in a violation of any of the terms or requirements of, or give any Government Entity the right to revoke, withdraw, suspend, cancel, terminate, or modify, any Governmental Authorization that is held by the Company or that otherwise relates to the business of, or any of the assets owned or used by, the Company;

(iv) cause Buyer or the Company to become subject to, or to become liable for the payment of, any Tax, except as otherwise set forth in this Agreement;

(v) cause any of the assets owned by the Company to be reassessed or revalued by any taxing authority or other Government Entity;

(vi) contravene, conflict with, or result in a violation or Breach 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 to cancel, terminate, or modify, any Applicable Contract; or

(vii) result in the imposition or creation of any Encumbrance upon or with respect to any of the assets owned or used by the Company.

(c) The execution and performance by Seller of this Agreement and the consummation of the Contemplated Transactions do not require any consent or waiver by, or filing with, any Government Entity and do not violate any Legal Requirement or decision of any court, Government Entity or arbitrator binding on Seller or the Company.

(d) Neither Seller nor the Company is or will be required to give any notice to or obtain any Consent from any Person in connection with the execution of this Agreement or the consummation or performance of any of the Contemplated Transactions.

4.3 Financial Statements.

(a) Seller has delivered to Buyer: (i) audited statutory income statements (including the notes thereto) of Ismeca Semiconductor Holding SA and Ismeca Europe Semiconductor SA for each of the years ended December 31, 2009 through 2011, (ii) unaudited income statements (including the notes thereto) for each of the Malaysia Subsidiary, China Subsidiary, Ismeca USA and CDF Holding USA for the years ended December 31, 2009 through 2011, (iii) an audited balance sheet for each of Ismeca Semiconductor Holding SA and Ismeca Europe Semiconductor SA as of December 31, 2009, December 31, 2010 and December 31, 2011 (the “**2011 Balance Sheet Date**”), including the notes thereto together with the report thereon of Deloitte AG, independent registered public accountants, (iv) an unaudited balance sheet for each of the Malaysia Subsidiary, China Subsidiary, Ismeca USA and CDF Holding USA as of December 31, 2009, December 31, 2010 and December 31, 2011, in each case including the notes thereto (the December 31, 2011 balance sheets referred to in (iii) and (iv), collectively, the “**Balance Sheet**”), (v) an unaudited consolidated balance sheet of the Company as of June 30, 2012 (the “**Interim Balance Sheet**”) and the related unaudited consolidated statements of income, changes in shareholders’ equity, including in each case the notes thereto (the foregoing financial statements, including the notes thereto, are referred to as the “Financial Statements”), and (vi) an unaudited pro forma consolidating balance sheet of the Company as of September 30, 2012 and the related unaudited consolidating statements of income for the nine (9) month period then ended (herein referred to as the “**September Financial Information**”). The foregoing financial statements, including the notes thereto, are referred to as the “**Financial Statements**”.

(b) The Financial Statements fairly present the financial condition and the results of operations of the Company as at the respective dates of and for the periods referred to in the Financial Statements, all in accordance with applicable IFRS; the Financial Statements

referred to in this Section 4.3 reflect the consistent application of such accounting principles throughout the periods involved, except as disclosed in the notes to such Financial Statements, and the September Financial Information is stated on a basis substantially consistent with the Financial Statements. No financial statements of any Person other than the Company are required by applicable IFRS to be included in the consolidated financial statements of the Company.

(c) To the Knowledge of the Company, there are no facts or circumstances (including subsequent events) which would, individually or in the aggregate, require a change to the Financial Statements.

4.4 Books and Records. The books of account, minute books and other records of the Company, are complete and correct and have been maintained in accordance with sound business practices in the relevant jurisdiction, including the maintenance of an adequate system of internal controls and risk assessments. The minute books of the Company contain accurate and complete records of all meetings held of, and corporate action taken by, the shareholders and the board of directors, and no meeting of any such shareholders or board of directors has been held for which minutes have not been prepared and are not contained in such minute books. At the Closing, all of those books and records will be in the possession of the Company.

4.5 Title to Properties; Encumbrances.

(a) Part 4.5 of the Disclosure Schedule contains a complete and accurate list of all real property, leaseholds, or other interests therein owned or leased by the Company. Seller has delivered or made available to Buyer copies of the deeds and other instruments (as recorded) by which the Company acquired such real property and interests, and copies of all title insurance policies, opinions, abstracts, and surveys in the possession of Seller or the Company and relating to such property or interests. The Company owns (with good and marketable title in the case of real property, subject only to the matters permitted by the following sentence) all the properties, other tangible assets and rights to use (whether real, personal, or mixed and whether tangible or intangible) that it purports to own, including all of the properties and other tangible assets reflected in the Balance Sheet and the Interim Balance Sheet (except for other tangible assets held under capitalized leases disclosed or not required to be disclosed in Part 4.5 of the Disclosure Schedule and personal property sold since the date of the Balance Sheet and the Interim Balance Sheet, as the case may be, in the Ordinary Course of Business), and all of the properties and other tangible assets purchased or otherwise acquired by the Company since the date of the Balance Sheet (except for personal property acquired and sold since the date of the Balance Sheet in the Ordinary Course of Business and consistent with past practice), and all such subsequently purchased or acquired properties and other tangible assets (other than inventory and short-term investments) are listed in Part 4.5 of the Disclosure Schedule.

(b) All Material properties and assets reflected in the Balance Sheet and the Interim Balance Sheet are free and clear of all Encumbrances and are not, in the case of real property, subject to any rights of way, building use restrictions, exceptions, variances, reservations, or limitations of any nature except, with respect to all such properties and assets, (i) mortgages or security interests shown on the Balance Sheet or the Interim Balance Sheet as securing specified liabilities or obligations, with respect to which no default (or event that, with

notice or lapse of time or both, would constitute a default) exists, (ii) mortgages or security interests Disclosed to Buyer and incurred in connection with the purchase of property or assets after the date of the Interim Balance Sheet (such mortgages and security interests being limited to the property or assets so acquired), with respect to which no default (or event that, with notice or lapse of time or both, would constitute a default) exists, (iii) liens for current taxes not yet due, and (iv) with respect to real property, subject to (A) the restrictions and limitations set out in the real estate registry, such as “Dienstbarkeiten” and “Grundlasten”, (B) minor imperfections of title, if any, none of which is substantial in amount, detracts from the value or impairs the use of the property subject thereto, or impairs the operations of the Company, and (C) zoning Legal Requirements and other land use restrictions that do not impair the present or anticipated use of the property subject thereto. All buildings, plants, and structures owned by the Company lie wholly within the boundaries of the real property owned by the Company and do not encroach upon the property of, or otherwise conflict with the property rights of, any other Person.

4.6 Condition and Sufficiency of Assets. Other than Seller, there is no Related Person that is involved directly or indirectly in the operation of the Business. The assets held by the Company constitute all of the assets, tangible and intangible, of any nature whatsoever, that are appropriate and sufficient for the full and effective operation of the Business as currently operated and as proposed to be operated. The buildings, plants, structures, and equipment owned or used by the Company are structurally sound, are in good operating condition and repair, ordinary wear and tear excepted, and are adequate for the uses to which they are being put, and none of such buildings, plants, structures, or equipment is in need of maintenance or repairs except for ordinary, routine maintenance and repairs that are not Material in nature or cost.

4.7 Accounts Receivable. All accounts receivable of the Company that are reflected on the Balance Sheet or the Interim Balance Sheet or on the accounting records of the Company (collectively, the “**Accounts Receivable**”) represent valid obligations arising from sales actually made or services actually performed in the Ordinary Course of Business. Unless collected prior to the Closing Date, the Accounts Receivable are or will be as of the Closing Date current and, to the Knowledge of the Company, collectible net of the respective reserves shown on the Balance Sheet or the Interim Balance Sheet or on the accounting records of the Company as of the Closing Date (which reserves are adequate and calculated consistent with past practice). The Disclosure Schedule contains a complete and accurate list of all Accounts Receivable as of the date of the Interim Balance Sheet, which list sets forth the aging of such Accounts Receivable.

4.8 Inventory. All inventory of the Company, whether or not reflected in the Balance Sheet or the Interim Balance Sheet, consists of a quality and quantity usable and salable in the Ordinary Course of Business, except for obsolete items and items of below-standard quality, all of which have been written off or written down to the appropriate net realizable value in the Balance Sheet or the Interim Balance Sheet or on the accounting records of the Company as of the Closing Date, as the case may be. All inventories not written off have been priced at the lower of cost or the realizable value on a weighted average basis. The quantities of each item of inventory (whether raw materials, work-in-process, or finished goods) are not excessive, but are reasonable in the present circumstances of the Company.

4.9 **No Undisclosed Liabilities.** Except as otherwise Disclosed to Buyer, the Company has no liabilities or obligations of any nature (whether known or unknown and whether absolute, accrued, contingent, or otherwise) except for liabilities or obligations specifically reflected or reserved against in the Balance Sheet or the Interim Balance Sheet and current liabilities incurred in the Ordinary Course of Business that are not Material, individually or in the aggregate, since the respective dates thereof. Except as otherwise Disclosed to Buyer, the Company is not a guarantor or indemnitor of any indebtedness of any other Person. After the date of the Interim Balance Sheet, liabilities and obligations of the Company for any performance under any Contract have only occurred in the Ordinary Course of Business.

4.10 **Taxes.**

(a) As used in this Agreement, the terms “**Tax**” and, collectively, “**Taxes**” mean any and all taxes, assessments and other governmental charges under the Legal Requirements of any jurisdiction including all forms of taxation, duties, levies, imposts and social security charges, whether direct or indirect including, without limitation, corporate tax, income tax, sales tax, use tax, taxes based upon or measured by gross receipts, profits, trade tax, real estate transfer tax, securities transfer tax, payroll taxes, wage withholding tax, national social security contributions and employee social security contributions, value added tax, goods and services tax, business tax, stamp duty and one-time capital duty, ad valorem, customs and excise duties, capital tax and other legal transaction taxes, withholding tax, land taxes, environmental taxes and duties and any other type of taxes or duties payable by virtue of any applicable national, regional, cantonal or local Legal Requirement or regulation and which may be due directly or by virtue of joint and several liability in any relevant jurisdiction; together with any interest, penalties, surcharges or fines relating thereto, due, payable, levied, imposed upon or owed or claimed to be owed in any relevant jurisdiction; no matter how they are levied or determined.

(b) The Company has prepared and timely filed all returns, estimates, information statements and reports required to be filed with any taxing authority (“**Returns**”) relating to any and all Taxes concerning or attributable to the Company or its operations for any period ending on or before the Closing Date and such Returns are true and correct and have been completed in accordance with applicable Legal Requirement. All Taxes due and owing (whether or not shown on any Return) have been paid when due.

(c) As of the date hereof, the Company has, and as of the Closing Date shall have (i) timely withheld from its employees, independent contractors, customers, shareholders, and other Persons from whom it is required to withhold Taxes in compliance with all applicable Legal Requirements, and (ii) timely paid all amounts so withheld to the appropriate Government Entity or taxing authority.

(d) To the Knowledge of the Company, here is no Tax deficiency outstanding or assessed or proposed against the Company that is not reflected as a liability on the Financial Statements, and the Company has not executed any agreement or waiver extending any statute of limitations on or extending the period for the assessment or collection of any Tax.

(e) Except as otherwise Disclosed to Buyer, the Company is not a party to any tax-sharing agreement or similar arrangement with any other party, and the Company has not assumed any obligation to pay any Tax obligations of, or with respect to any transaction relating to, any other Person or agreed to indemnify any other Person with respect to any Tax. No power of attorney with respect to Taxes is currently in effect with respect to the Company.

(f) Except as otherwise Disclosed to Buyer, the Returns of the Company have not been audited by a government or taxing authority, nor is any such audit in process or pending, and the Company has not been notified of any request for such an audit or other examination and no appeals, litigation or binding rulings with respect to Taxes are pending.

(g) Seller has Disclosed to Buyer (i) any Tax exemption, Tax holiday or other Tax-sharing arrangement that the Company has in any jurisdiction, including the nature, amount and lengths of such Tax exemption, Tax holiday or other Tax-sharing arrangement; and (ii) any like or similar tax programs or policies affecting the Company. The Company is in compliance with all terms and conditions required to maintain such Tax exemption, Tax holiday or other Tax-sharing arrangement or order of any Government Entity, and the consummation of the Contemplated Transactions hereby will not have any Material Adverse Effect on the continuing validity and effectiveness of any such Tax exemption, Tax holiday or other Tax-sharing arrangement or order.

(h) Seller has Disclosed to Buyer copies of all of the Returns for the Company relating to corporate tax, income tax, capital tax and withholding tax for all periods for the last three (3) taxable years.

(i) The Company is not, nor has it been, a party to any joint venture, partnership or other agreement that could be treated as a partnership for Tax purposes.

(j) There are (and immediately following the Closing there will be) no liens or encumbrances on the assets of the Company relating to or attributable to Taxes, other than liens for Taxes not yet due and payable.

(k) Neither CDF Holding USA nor Ismeca USA has ever been a United States Real Property Holding Corporation within the meaning of Section 897(c)(2) of the IRC.

(l) The Company is in compliance with all transfer, domestic or cross-border pricing requirements in all jurisdictions in which it does business. No Return has ever been subject to an adjustment in respect to transfer pricing under applicable Legal Requirements.

(m) No claim has been made by a taxing authority (foreign or domestic) in a jurisdiction where the Company does not file Returns to the effect that the Company may be subject to Tax by that jurisdiction. The Company does not have a “permanent establishment” (as such term is defined in any applicable Tax treaty or convention) in any country where the Company is not currently filing Returns.

(n) The Company has not distributed or caused to be distributed any hidden dividends, or distributed or granted any other benefit to Related Parties or to any other Person which could lead to the imposition of Taxes on dividends or constructive dividends.

4.11 **No Material Adverse Effect.** Since December 31, 2011, there has not been a Material Adverse Effect.

4.12 **Employee Benefits.**

(a) Except as required under this Agreement, or as otherwise Disclosed to Buyer, since January 1, 2009, there has not been (i) any adoption or material amendment by the Company of any collective bargaining agreement or any bonus, pension, profit sharing, deferred compensation, incentive compensation, stock ownership, stock purchase, stock option, phantom stock, stock appreciation right, retirement, vacation, severance, disability, death benefit, hospitalization, medical, worker's compensation, supplementary unemployment benefits, fringe benefit plan, change of control agreement, or other plan, arrangement or understanding (whether or not legally binding) or any employment agreement providing compensation or benefits to any current or former employee, officer, director or independent contractor of the Company or any beneficiary thereof or entered into, maintained or contributed to, as the case may be, by any of the Company, (A) under any benefits plans in force as of 31 December 2011 and (B) any other of the above with ongoing obligations to beneficiaries which are in effect (collectively, "**Benefit Plans**" or "**Plan**"), or (ii) any adoption of, or amendment to, or change in employee participation or coverage under, any Benefit Plans which would increase materially the expense of maintaining such Benefit Plans above the level of the expense incurred in respect thereof for the fiscal year ended on December 31, 2009. Except as expressly contemplated hereby, neither the execution of this Agreement nor the consummation of the Contemplated Transactions will (either alone or in conjunction with any other event) result in, cause the accelerated vesting or delivery of, or increase the amount or value of, any payment or benefit to any employee or independent contractor of the Company and all Benefit Plans permit assumption by Buyer upon consummation of the Contemplated Transactions without the consent of any participant.

(b) For purposes of this Agreement, the following definitions apply: "**Controlled Group Liability**" means any and all liabilities under (i) Title IV of ERISA, (ii) section 302 of ERISA, (iii) sections 412 and 4971 of the IRC, (iv) the continuation coverage requirements of section 601 et seq. of ERISA and section 4980B of the IRC, and (v) corresponding or similar provisions of foreign Legal Requirements or regulations, other than such liabilities that arise solely out of, or relate solely to, the Plans; "**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder; "**ERISA Affiliate**" means, with respect to any entity, trade or business, any other entity, trade or business that is a member of a group described in Section 414(b), (c), (m) or (o) of the IRC or Section 4001 (b)(1) of ERISA and corresponding or similar provisions of foreign Legal Requirements or regulations that includes the first entity, trade or business, or that is a member of the same "controlled group" as the first entity, trade or business pursuant to Section 4001(a)(14) of ERISA.

(c) Part 4.12(c) of the Disclosure Schedule includes a complete list of all Benefit Plans that are currently in effect or under which the Company has ongoing obligations.

(d) With respect to each Plan, Seller has Disclosed to Buyer a true, correct and complete copy of: (i) each writing constituting a part of such Benefit Plan, including without limitation all plan documents, benefit schedules, trust agreements, and insurance contracts and other funding vehicles; (ii) the most recent Annual Report (Form 5500 Series) and accompanying schedule, if any; (iii) the current summary plan description and any material modifications thereto, if any; (iv) the most recent annual financial report, if any; (v) the most recent actuarial report, if any; and (vi) the most recent determination letter from the competent Government Entity, if any.

(e) Except as specifically provided in the foregoing documents delivered to Buyer, there are no amendments to any Benefit Plan or any new Plan that have been adopted or approved since January 1, 2009, nor has Seller or the Company undertaken to make any such amendments or adopt or approve any new Plan.

(f) The Disclosure Schedule identifies each Plan that is intended to be a “qualified plan” within the meaning of Section 401(a) of the IRC (“**Qualified Plans**”). The Internal Revenue Service has issued a favorable determination letter with respect to each Qualified Plan that has not been revoked, and, to the Knowledge of the Company, there are no existing circumstances nor any events that have occurred that could adversely affect the qualified status of any Qualified Plan or the related trust. No Plan is intended to meet the requirements of IRC Section 501(c)(9).

(g) All contributions required to be made to any Benefit Plan by applicable Legal Requirements or regulation or by any plan document or other contractual undertaking, and all premiums due or payable with respect to insurance policies funding any Benefit Plan, for any period through the date hereof have been timely made or paid in full or, to the extent not required to be made or paid on or before the date hereof, have been fully reflected on the Financial Statements.

(h) The Company has complied, and is now in compliance, in all material respects with all provisions of ERISA, the IRC and all Legal Requirements and regulations applicable to the Plans. There is not now, nor do any circumstances exist that could give rise to, any requirement for the posting of security with respect to a Plan or the imposition of any Encumbrance on the assets of the Company under ERISA or the IRC. No prohibited transaction has occurred with respect to any Plan.

(i) The Company has never sponsored or participated in a Benefit Plan that is subject to Title IV of ERISA, (ii) section 302 of ERISA, (iii) sections 412 and 4971 of the IRC, (iv) a multiemployer plan” within the meaning of Section 4001(a)(3) of ERISA (a “**Multiemployer Plan**”), (vi) or a multiple employer plan within the meaning of Section 4063 of ERISA (a “**Multiple Employer Plan**”).

(j) No Company has any liability for life, health, medical or other welfare benefits to former employees or beneficiaries or dependents thereof, except for health continuation coverage as required by applicable Legal Requirements and at no expense to the Company.

(k) All Plans covering foreign employees or independent contractors of the Company comply with applicable local Legal Requirements and are fully funded and/or book reserved to the extent required under the terms of such Plans and applicable local Legal Requirements.

(l) To the Knowledge of the Company, no labor organization, works council, employee representative body or group of employees of the Company has made a pending demand for recognition or certification, and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or threatened to be brought or filed, with the National Labor Relations Board or any other labor relations tribunal or authority. The Company has complied with the Worker Adjustment and Retraining Notification Act and with all similar applicable Legal Requirements.

(m) There are no pending or, to the Knowledge of the Company, threatened claims (other than claims for benefits in the Ordinary Course of Business), lawsuits or arbitrations which have been asserted or instituted against the Plans, any fiduciaries thereof with respect to their duties to the Plans or the assets of any of the trusts under any of the Plans which could reasonably be expected to result in any material liability of the Company to the Pension Benefit Guaranty Corporation, the Department of Treasury, the Department of Labor, any Multiemployer Plan, or foreign governmental entities.

(n) Part 4.12(n) of the Disclosure Schedule contains an accurate and complete list as of the date of this Agreement of all loans and advances made by the Company to any employee, director, consultant or independent contract, other than routine travel and expense advances made to employees in the Ordinary Course of Business. The Company have not, since January 1, 2009, extended or maintained credit, arranged for the extension of credit, or renewed an extension of credit, in the form of a personal loan to or for any director or executive officer (or equivalent thereof) of the Company. Part 4.12(n) of the Disclosure Schedule identifies any extension of credit maintained by the Company to which the second sentence of Section 13(k)(1) of the Exchange Act applies.

4.13 Compliance with Legal Requirements; Governmental Authorizations.

(a) Except as otherwise Disclosed to Buyer:

(i) the Company is, and at all times since January 1, 2009, has been, in Material compliance with each Legal Requirement that is or was applicable to it or to the conduct or operation of its business or the ownership or use of any of its assets, and the operative facilities of the Company have been constructed, and any subsequent Material alterations or extensions thereof have been carried out, in compliance with all applicable Legal Requirements.

(ii) to the Knowledge of the Company, since January 1, 2009, no event has occurred or circumstance exists that (A) may constitute or result in a violation by the Company of, or a failure on the part of the Company to comply with, any Legal Requirement, or (B) may give rise to any obligation on the part of the Company to undertake, or to bear all or any portion of the cost of, any remedial action of any nature; and

(iii) the Company has not received, at any time since January 1, 2009, any written notice or other written communication from any Government Entity or, to the Knowledge of the Company, any other Person regarding (A) any actual, alleged, possible, or potential violation of, or failure to comply with, any Legal Requirement, or (B) any actual, alleged, possible, or potential obligation on the part of the Company to undertake, or to bear all or any portion of the cost of, any remedial action of any nature.

(b) Part 4.13(b) of the Disclosure Schedule contains a complete and accurate list of each Governmental Authorization that is held by the Company or that otherwise relates to the business of, or to any of the assets owned or used by, the Company. Each Governmental Authorization listed or required to be listed in Part 4.13(b) of the Disclosure Schedule is valid and in full force and effect. Except as otherwise Disclosed to Buyer:

(i) the Company is, and at all times since January 1, 2009, has been, in Material compliance with all of the terms and conditions of each Governmental Authorization identified or required to be identified in Part 4.13(b) of the Disclosure Schedule;

(ii) to the Knowledge of the Company, no event has occurred or circumstance exists that may (A) constitute or result directly or indirectly in a violation of or a failure to comply with any term or requirement of any Governmental Authorization listed or required to be listed in Part 4.13(b) of the Disclosure Schedule, or (B) result directly or indirectly in the revocation, withdrawal, suspension, cancellation, or termination of, or any modification to, any Governmental Authorization listed or required to be listed in Part 4.13 of the Disclosure Schedule;

(iii) the Company has not received, at any time since January 1, 2009, any written notice or other written communication from any Government Entity 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; and

(iv) all applications required to have been filed for the renewal of the Governmental Authorizations listed or required to be listed in Part 4.13(b) of the Disclosure Schedule 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.

(c) The Governmental Authorizations listed in Part 4.13(b) of the Disclosure Schedule collectively constitute all of the Governmental Authorizations which are required pursuant to a Legal Requirement or are necessary to permit the Company to lawfully conduct and operate its business in the manner it currently conducts and operates its business and to permit the Company to own and use its assets in the manner in which it currently owns and uses such assets.

(d) Except as otherwise Disclosed to Buyer, the Company has not obtained any grants, state aids, subsidies, state loans or tax advantages.

4.14 Legal Proceedings; Orders.

(a) Except as otherwise Disclosed to Buyer, there is no pending Proceeding:

(i) that has been commenced by or against the Company or that otherwise relates to or may affect the business of, or any of the assets owned or used by, the Company; or

(ii) that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions.

No such Proceeding has been Threatened or contemplated, and no event has occurred or circumstance exists that Seller believes, or should reasonably believe may give rise to or serve as a basis for the commencement of any such Proceeding. Seller has Disclosed to Buyer a summary description of each pending Proceeding, along with all pleadings, court filings, court judgments and relevant correspondence relating thereto. Such Proceedings will not have a Material Adverse Effect.

(b) Except as otherwise Disclosed to Buyer:

(i) there is no Order to which the Company, or any of the assets owned or used by the Company, is subject;

(ii) Seller is not subject to any Order that relates to the Business or any of the assets owned or used by the Company; and

(iii) no officer or director, or, to the Knowledge of the Company, agent, or employee of the Company is subject to any Order that prohibits such officer, director, agent, or employee from engaging in or continuing any conduct, activity, or practice relating to the business of the Company.

(c) Except as otherwise Disclosed to Buyer:

(i) the Company is, and at all times since January 1, 2009, has been, in full compliance with all of the terms and requirements of each Order to which it, or any of the assets owned or used by it, is or has been subject;

(ii) to the Knowledge of the Company, no event has occurred or circumstance exists that may constitute or result in a violation of or failure to comply with any term or requirement of any Order to which the Company, or any of the assets owned or used by the Company, is subject; and

(iii) neither the Company nor any of its Subsidiaries has received, at any time since January 1, 2009, any written notice or other written communication from any Government Entity or any other Person regarding any actual, alleged, possible, or potential violation of, or failure to comply with, any term or requirement of any Order to which the Company, or any of the assets owned or used by the Company, is or has been subject.

4.15 Absence of Certain Changes and Events. Except as otherwise Disclosed to Buyer, since the 2011 Balance Sheet Date, the Company have conducted its business only in the Ordinary Course of Business and there has not been any Material Adverse Effect, any action or event of the type described in Section 6.2(b), or:

- (a) any Material loss, damage or destruction to, or any Material interruption in the use of, any of the assets of the Company (whether or not covered by insurance) that has had or could reasonably be expected to have a Material Adverse Effect;
- (b) (i) any declaration, accrual, set aside or payment of any dividend or any other distribution in respect of any shares or capital stock of the Company, or (ii) any repurchase, redemption or other acquisition by the Company of any shares of capital stock or other securities;
- (c) any sale, issuance or grant, or authorization of the issuance of, (i) any capital stock or other security of the Company, (ii) any option, warrant or right to acquire any capital stock or any other security of the Company, or (iii) any instrument convertible into or exchangeable for any share capital, capital stock or other security of the Company;
- (d) any amendment or waiver of any of the rights of the Company under, or acceleration of vesting under, (i) any provision of any of the Company's equity compensation plans, (ii) any provision of any Contract evidencing any outstanding Company stock option or equity compensation, or (iii) any restricted stock purchase agreement;
- (e) any amendment to any Organizational Document of the Company, any merger, consolidation, share exchange, business combination, recapitalization, reclassification of shares, stock split, reverse stock split or similar transaction involving the Company;
- (f) any creation of any Subsidiary of the Company or acquisition by the Company of any equity interest or other interest in any other Person;
- (g) any capital expenditure by the Company which, when added to all other capital expenditures made on behalf of the Company since the date of the Balance Sheet, exceeds US\$25,000 in the aggregate;
- (h) except in the Ordinary Course of Business, any action by the Company to (i) enter into or suffer any of the assets owned or used by it to become bound by any Material Contract (as defined in Section 4.16), or (ii) amend or terminate, or waive any material right or remedy under, any Material Contract;
- (i) any (i) acquisition, lease or license by the Company of any Material right or other Material asset from any other Person, (ii) sale or other disposal or lease or license by the Company of any Material right or other Material asset to any other Person, or (iii) waiver or relinquishment by the Company of any right, except for rights or other assets acquired, leased, licensed or disposed of in the Ordinary Course of Business;

(j) any (i) write-off as uncollectible, (ii) establishment of any extraordinary reserve with respect to or (iii) change of collection practices for, including, but not limited to, (A) changing of due dates, (B) entering into factoring arrangements or (C) granting of discounts or other benefits for accelerated payment of, any account receivable of or other amount due to the Company;

(k) any pledge of any assets of or sufferance of any of the assets of the Company to become subject to any Encumbrance, except for pledges of immaterial assets made in the Ordinary Course of Business;

(l) any (i) loan by the Company to any Person, or (ii) incurrence or guarantee by the Company of any indebtedness for borrowed money;

(m) any (i) adoption, establishment, entry into or amendment by the Company of any Plan or (ii) payment of any bonus or any profit sharing or similar payment to, or Material increase in the amount of the wages, salary, commissions, fringe benefits or other compensation or remuneration payable to, any of the directors, officers or employees of the Company;

(n) any change of the methods of accounting or accounting practices of the Company in any Material respect;

(o) any Material Tax election by the Company;

(p) any commencement or settlement of any Proceeding by the Company;

(q) any agreement or commitment to take any of the actions referred to in clauses (c) through (p) above.

4.16 Contracts; No Defaults.

(a) Part 4.16 of the Disclosure Schedule contains a complete and accurate list, and Seller has delivered to Buyer true and complete copies of each written Contract, and other instrument or document (including of any amendments), for which there are ongoing rights or obligations, contingent or otherwise:

(i) of Seller or the Company with any director, officer or Affiliate of the Company;

(ii) of the Company evidencing, governing or relating to indebtedness for borrowed money in the amount of US\$10,000 or more,

(iii) of the Company not entered into in the Ordinary Course of Business that involves expenditures or receipts in the amount of US\$10,000 or more;

(iv) of the Company relating to the employment of, or the performance of services by, any employee or consultant, or pursuant to which the Company is or may become obligated to make any severance, termination or similar payment to any current or former employee or director, in each case with a contract value of US\$10,000 or more; or pursuant to

which the Company is or may become obligated to make any bonus or similar payment (other than payments constituting base salary) to any current or former employee or director in the amount of \$US10,000 or more;

(v) (A) of the type to be listed pursuant to Section 4.21(b) with a contract value equal or in excess of US\$10,000, or (B) of the type referred to in Section 4.21(d);

(vi) providing for indemnification by the Company or Seller of any officer, director, employee or agent of the Company;

(vii) (A) relating to the acquisition, issuance, voting, registration, sale or transfer of any securities of the Company, (B) providing any Person with any preemptive right, right of participation, right of maintenance or any similar right with respect to any securities of the Company, or (C) providing the Company with any right of first refusal with respect to, or right to repurchase or redeem, any securities;

(viii) incorporating or relating to any guaranty, any warranty or any indemnity or similar obligation in the amount of US\$10,000 or more by or on behalf of the Company, except for Contracts substantially identical to the standard forms of end user licenses previously delivered by Seller to Buyer;

(ix) relating to any currency hedging of the Company in the amount of US\$10,000 or more;

(x) (A) imposing any confidentiality obligation on the Company or any other Person, or (B) containing “standstill” or similar provisions; provided, in each case, that the underlying contract value is US\$10,000 or more;

(xi) (A) of the Company to which any Government Entity is a party or under which any Government Entity has any rights or obligations, or (B) the Company directly or indirectly benefiting any Government Entity (including any subcontract or other Contract between the Company and any contractor or subcontractor to any Government Entity);

(xii) that could reasonably be expected to have a Material effect on the business, condition, capitalization, assets, liabilities, operations or financial performance of the Company or on any of the transactions contemplated by this Agreement;

(xiii) any Contract reasonably expected to involve expenditures or receipts of the Company in excess of US\$100,000 annually and having a term of one year or more or having a notice period of three months or more; or

(xiv) any other Contract, if a Breach of such Contract could reasonably be expected to have a Material Adverse Effect on the Business.

(b) Any Contract which falls under any of the categories listed under Sections 4.16(a) (i) to (xiv) above, regardless whether oral or written and whether the Contract

reaches or exceeds the monetary thresholds set forth in Sections 4.16(a) (i) to (xiv) or 4.21(b), is a “**Material Contract.**”

(i) Each Material Contract is valid and in full force and effect, and is enforceable in accordance with its terms.

(ii) Except as otherwise Disclosed to Buyer: (A) the Company has not violated or Breached, or committed any default under, any Material Contract, except for violations, Breaches and defaults that have not had and would not reasonably be expected to have a Material Adverse Effect; and, to the Knowledge of the Company, no other Person has violated or Breached, or committed any default under, any Material Contract, except for violations, Breaches and defaults that have not had and would not reasonably be expected to have a Material Adverse Effect; (B) to the Knowledge of the Company, no event has occurred, and no circumstance or condition exists, that will or would reasonably be expected to, (I) result in a violation or Breach of any of the provisions of any Material Contract, (II) give any Person the right to declare a default or exercise any remedy under any Material Contract, (III) give any Person the right to receive or require a rebate, chargeback, penalty or change in delivery schedule under any Material Contract, (IV) give any Person the right to accelerate the maturity or performance of any Material Contract, (V) result in the disclosure, release or delivery of any Company Source Code, or (VI) give any Person the right to cancel, terminate or modify any Material Contract, except in each such case for defaults, acceleration rights, termination rights and other rights that have not had and would not reasonably be expected to have a Material Adverse Effect; and (C) since January 1, 2009, none of the Company or any of the Company’s Subsidiaries has received or sent any notice or other communication regarding any actual or possible violation or Breach of, or default under, any Material Contract, except in each such case for defaults, acceleration rights, termination rights and other rights that have not had and would not reasonably be expected to have a Material Adverse Effect. The Material Adverse Effect qualifiers in this Section 4.16 (b)(ii) shall not apply to the Material Contracts which fall under the categories in Sections 4.16(a)(v)(A) and 4.21(b).

4.17 Insurance.

(a) Seller has delivered to Buyer:

(i) true and complete copies of all Material policies of insurance to which the Company is a party or under which the Company, or any director of the Company, is or has been covered at any time within the three (3) years preceding the date of this Agreement;

(ii) true and complete copies of all pending applications for policies of insurance; and.

(iii) any statement by the auditor of the Company’s financial statements with regard to the adequacy of the Company’s coverage or of the reserves for claims.

(b) Part 4.17(b) of the Disclosure Schedule describes:

thereunder; and

(i) any self-insurance arrangement by or affecting the Company, including any reserves established

(ii) any contract or arrangement, other than a policy of insurance, for the transfer or sharing of any risk by the Company.

(c) Part 4.17(c) of the Disclosure Schedule sets forth, by year, for the current policy year and each of the three (3)) preceding policy years:

(i) a summary of the loss experience under each policy;

(ii) a statement describing each claim or group of associated claims under an insurance policy for an amount in excess of US\$100,000, which sets forth:

(A) the name of the claimant;

(B) a description of the policy by insurer, type of insurance, and period of coverage; and

(C) the amount and a brief description of the claim(s); and

(iii) a statement describing the loss experience for all claims that were self-insured, including the number and aggregate cost of such claims.

(d) Except as otherwise Disclosed to Buyer:

(i) All policies to which the Company is a party or that provide coverage to Seller, the Company, or any director or officer of the Company:

(A) are valid, outstanding, and enforceable;

(B) are issued by an insurer that is financially sound and reputable;

(C) taken together, provide adequate insurance coverage for the assets and the operations of the Company for all risks normally insured against by a Person carrying on the same business or businesses as the Company;

(D) are sufficient for compliance with all Legal Requirements and Contracts to which the Company is a party or by which any of them is bound;

(E) except as otherwise agreed between the Parties in writing, will continue in full force and effect following the consummation of the Contemplated Transactions; and

(F) do not provide for any retrospective premium adjustment or other experienced-based liability on the part of the Company.

(ii) Neither Seller nor the Company has received (A) any refusal of coverage or any notice that a defense will be afforded with reservation of rights, or (B) any notice of cancellation or any other indication that any insurance policy is no longer in full force or effect or will not be renewed or that the issuer of any policy is not willing or able to perform its obligations thereunder.

(iii) The Company has paid all premiums due, and has otherwise performed all of their respective obligations, under each policy to which the Company is a party or that provides coverage to the Company or a director thereof.

(iv) The Company has given notice to the insurer of all claims that may be insured thereby.

4.18 Environmental Matters. Except as otherwise Disclosed to Buyer:

(a) The Company is, and at all times has been, in full compliance with, and has not been and is not in violation of or liable under any Environmental Law or Occupational Safety and Health Law.

(b) The Company holds and is and has been in full compliance with all Governmental Authorizations required under Environmental Law ("**Environmental Permits**") for the conduct of its business, each of which is in full force and effect and is listed in the Disclosure Schedule. Neither Seller nor the Company has any basis to expect, nor have any of them received any notice that any such Environmental Permit is subject to withdrawal, termination, modification or non-renewal. No consent, notification or other action is required for each of the Environmental Permits to continue in full force and effect following consummation of the transactions contemplated by this Agreement.

(c) Neither Seller nor the Company has any basis to expect, nor has any of them or any other Person for whose conduct they are or may be held to be responsible, received any actual or Threatened Material citation, directive, inquiry, notice, Order, summons, warning, or other communication from any Government Entity or other Person that relates to Hazardous Activity, Hazardous Material, or any alleged, actual or potential violation of or failure to comply with any Environmental Law, or of any actual or potential Environmental, Health, and Safety Liabilities, including with respect to any of the Facilities or any other properties or assets (whether real, personal, or mixed) in which Seller or the Company has had an interest, or with respect to any property or facility at or to which Hazardous Materials were generated, manufactured, refined, transferred, imported, exported, used, processed, Released or disposed by or on behalf of Seller, the Company, or any other Person for whose conduct they are or may be held responsible, or from which Hazardous Materials have been Released, transported, treated, stored, handled, transferred, disposed, recycled, or received.

(d) There are no pending or, to the Knowledge of the Company, Threatened claims, Encumbrances, or other restrictions of any nature, resulting from any Environmental,

Health, and Safety Liabilities or arising under or pursuant to any Environmental Law or Occupational Safety and Health Law, with respect to or affecting any of the Facilities or any other properties and assets (whether real, personal, or mixed) in which Seller or the Company has or had an interest.

(e) Neither Seller nor any Company, nor any other Person for whose conduct they are or may be held responsible, has any Environmental, Health, and Safety Liabilities with respect to the current or former business or operations of the Company or any predecessor, the Facilities or, with respect to any other properties and assets (whether real, personal, or mixed) in which Seller or the Company (or any predecessor), has or had an interest, or at any property geologically or hydrologically adjoining the Facilities or with respect to any other property or assets.

(f) To the Knowledge of Company there are no Hazardous Materials present on or in the Environment at the Facilities or at any geologically or hydrologically adjoining property, including any Hazardous Materials contained in barrels, above or underground storage tanks, landfills, impoundments, land deposits, dumps, equipment (whether moveable or fixed) or other containers, either temporary or permanent, or 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. Neither Seller nor the Company, nor any other Person for whose conduct they are or may be held responsible, nor any other Person, has permitted or conducted, or is aware of, any Hazardous Activity conducted with respect to the Facilities or any other properties or assets (whether real, personal, or mixed) in which Seller or the Company has or had an interest.

(g) There has been no Release or, to the Knowledge of the Company, Threat of Release, of any Hazardous Materials at or from the Facilities, at or from any other locations where any Hazardous Materials were generated, manufactured, refined, transferred, produced, imported, exported, used, processed, Released or disposed by or on behalf of the Company, or at or from any other properties and assets (whether real, personal, or mixed) in which Seller or the Company has or had an interest, or to any geologically or hydrologically adjoining property, whether by Seller, the Company, or any other Person.

(h) Seller and the Company have disclosed the Hazardous Materials management practices of and all potentially material environmental matters relating to the Company. Seller has delivered to Buyer true and complete copies of reports and results of all environmental assessments, audits, studies, inspections, investigations, analyses, tests, and monitoring, remedial action plans and similar documents, in the possession or control of Seller or the Company pertaining to Hazardous Materials or Hazardous Activities in, on, or under the Facilities, or concerning compliance by Seller, the Company, or any other Person for whose conduct they are or may be held responsible, with Environmental Laws or Occupational Safety and Health Laws, including copies of the Environmental Permits.

(i) None of the Facilities is subject to any lien in favor of any Governmental Authority or any other Person for any Environmental, Health or Safety Liability nor is any Facility subject to any Environmental Restriction.

(j) No notice, filing, approval, consent, clearance or authorization is required under Environmental Law in order to consummate the transactions contemplated by this Agreement or for the operations of the Company to continue after Closing.

The Company has not agreed to assume or indemnify and has not assumed by operation of law any Environmental, Health and Safety Liability of any Person.

4.19 Employees.

(a) Part 4.19(a) of the Disclosure Schedule contains a complete and accurate list as of 30 September 2012, to the extent such disclosure is permissible under local law, of the following information for each employee, director, freelancer, independent contractor and leasing employee of the Company, including each employee on leave of absence or layoff status or in partial retirement: employer; name; job title; full or part-time employment status; membership in works council or other employee representative bodies; term of employment (if fixed); all current compensation and benefits paid or payable and any change in compensation since January 1, 2012.

(b) No employee or director of the Company is a party to, or is otherwise bound by, any agreement or arrangement, including any confidentiality, noncompetition, or proprietary rights agreement, between such employee or director and any other Person ("**Proprietary Rights Agreement**") that in any way adversely affects or will affect (i) the performance of his duties as an employee or director of the Company, or (ii) the ability of the Company to conduct its business, including any Proprietary Rights Agreement with Seller or the Company by any such employee or director. To the Knowledge of the Company, no director, officer, or other key employee of the Company intends to terminate his employment with such Company.

(c) Part 4.19(c) of the Disclosure Schedule contains a complete and accurate list of the following information for each retired employee, independent contractor or director of the Company, or their dependents, receiving benefits or scheduled to receive benefits after the date of this Agreement: name, pension benefit, pension option election, retiree medical insurance coverage, retiree life insurance coverage, termination benefits that have been or are entitled to be received, any other benefits and any claims or potential claims by such former employee, independent contractor or director of the Company, or their dependents and other benefits.

(d) Part 4.19(d) of the Disclosure Schedule contains a complete and accurate list of all applicable collective bargaining, works agreements, business practices and works council of the Company.

(e) The Company has not violated or Breached any Legal Requirements regarding employment, discrimination in employment, terms and conditions of employment, worker classification (including the proper classification employees as exempt or nonexempt and workers as independent contractors), wages, immigration status, hours and occupational safety and health and employment practices, leaves of absences, reasonable accommodation for employees with disabilities and has not engaged in any unfair labor practice. The Company has

withheld all amounts required by Legal Requirements or by agreement to be withheld from the wages, salaries, and other payments to employees; and is not liable for any arrears of wages, compensation, Tax, penalties or other sums for failure to comply with any of the foregoing. The Company has paid in full to all employees, independent contractors and consultants all wages, salaries, commissions, bonuses, benefits and other compensation due to or on behalf of such employees, independent contractors and consultants. The Company is not liable for any payment to any trust or other fund or to any Government Entity, with respect to unemployment compensation benefits, social security or other benefits or obligations for employees (other than routine payments to be made in the normal course of business and consistently with past practice). Except as otherwise Disclosed to Buyer, there are no pending claims against the Company under any workers compensation plan or policy or for long term disability. There are no Proceedings, claims, controversies, investigations, audits or suits pending or, to the Knowledge of the Seller or Company, threatened against Company by any of its employees, former employees or contractors, or any Government Entity.

(f) To the Knowledge of the Company, any Person who has performed services for the Company while classified as independent contractors has satisfied the requirements of the applicable law to be so classified. The Company has fully and accurately reported each independent contractor's compensation on IRS Forms 1099 or other applicable Tax forms for independent contractors when required to do so. All such independent contractors have entered into appropriate confidentiality and invention assignment agreements in favor of the Company, if and to the extent that such independent contractors are not otherwise subject to the corresponding obligations and duties based on statutory law.

(g) No employee of the Company (i) to the Knowledge of the Company, is in violation of any term of any Patent disclosure agreement, non-competition agreement or any restrictive covenant to any Person relating to the right of any such employee to be employed by the Company because of the nature of the Business conducted or presently proposed to be conducted by the Company or to the use of Trade Secrets or proprietary information of others or (ii) in the case of any key employee or group of key employees, has given notice to the Company that such employee or any employee in a group of key employees intends to terminate his or her employment with the Company.

4.20 Labor Relations; Compliance. Except as otherwise Disclosed to Buyer, the Company has not been, since January 1, 2007, a party to any collective bargaining or other labor Contract. Since January 1, 2007, there has not been, there is not presently pending or existing, and there is not Threatened, (a) any strike, slowdown, picketing, work stoppage, or employee grievance process, (b) any Proceeding against or affecting the Company relating to the alleged violation of any Legal Requirement pertaining to labor relations or employment matters, including any charge or complaint filed by an employee or union with the National Labor Relations Board, the Equal Employment Opportunity Commission, or any comparable Government Entity, organizational activity, or other labor or employment dispute against or affecting the Company or its premises, or (c) any application for certification of a collective bargaining agent. To the Knowledge of the Company, no event has occurred or circumstance exists that could provide the basis for any work stoppage or other labor dispute. There is no lockout of any employees by the Company, and no such action is contemplated by the Company.

The Company has complied in all respects with all Legal Requirements relating to employment, equal employment opportunity, nondiscrimination, immigration, wages, hours, benefits, leaves, collective bargaining, the payment of social security, social insurances and similar taxes, occupational safety and health, and plant closing. The Company is not liable for the payment of any compensation, damages, taxes, fines, penalties, or other amounts, however designated, for failure to comply with any of the foregoing Legal Requirements.

4.21 Intellectual Property.

(a) Part 4.21 of the Disclosure Schedule lists the following with respect to Proprietary Rights of the Company (in each case specifying the relevant Company entity):

(i) Part 4.21(a)(i) of the Disclosure Schedule lists all of the Patents, certificates of invention, invention disclosures and records of invention filed with any Registration Office owned by or purported to be owned by the Company, setting forth in each case the jurisdictions in which Issued Patents have been issued and Patent Applications have been filed, the application or registration number, and what actions, filings and payments must be taken during the 120-day period following the Closing Date to maintain and prosecute such Issued Patents and Patent Applications, including without limitation any the payment of any fees and amounts to be paid during such period;

(ii) Part 4.21(a)(ii) of the Disclosure Schedule lists all of the Registered Trademarks owned by or purported to be owned by the Company, setting forth in each case the application or registration number, the jurisdictions in which Registered Trademarks have been registered and trademark applications for registration have been filed;

(iii) Part 4.21(a)(iii) of the Disclosure Schedule lists all of the Registered Copyrights owned by or purported to be owned by the Company, setting forth in each case the jurisdictions in which Copyrights have been registered and applications for copyright registration have been filed;

(iv) The Company is the sole and exclusive owners of and has good and valid title to all of the Company Proprietary Rights identified in the Disclosure Schedule and all Trade Secrets and other Company Proprietary Rights owned by or purported to be owned by the Company, free and clear of all Encumbrances. The Company does not jointly own any Proprietary Rights with any third party. The Company has a valid, legally enforceable, right to use, license and otherwise exploit all Company Proprietary Rights used by the Company, other than those owned by the Company (including without limitation interest acquired through a license or other right to use). Subject to statutory limitations, the Company has the sole and exclusive right to bring a claim or suit against any other Person for past, present or future infringement of Company Proprietary Rights owned by or purported to be owned by the Company. The Company has not (x) transferred ownership of, or granted any exclusive license with respect to, any Proprietary Rights to any Person, or (y) permitted the rights of the Company in any Proprietary Rights to enter into the public domain;

(v) The Company Proprietary Rights constitute (A) all the Proprietary Rights used or currently proposed to be used in the business the Company as conducted or

proposed to be conducted on the date of this Agreement, and (B) all the Proprietary Rights necessary to make, have made, use, offer for sale, sell or import the Company Product(s);

(vi) The Company has not been granted a license from any Related Person of the Company and no license is currently required from any Related Person of the Company, nor would any such license be necessary or appropriate following the Closing Date, in order to conduct the Business as currently conducted and as proposed to be conducted; and

(vii) Part 4.21(a)(vii) of the Disclosure Schedule lists all of the domain names and domain name registrations owned by or used by the Company, setting forth in each case the jurisdictions in which the domain names have been registered in connection with any Company Product or in the conduct of the Business.

(b) Part 4.21(b) of the Disclosure Schedule lists all Contracts, rights and other arrangements relating to any Company Proprietary Rights or any Company Product (in each case specifying the relevant Company entity) with a contract value of US\$10,000 or more, as follows:

(i) Part 4.21(b)(i) of the Disclosure Schedule lists (A) any Contract relating to any Company Proprietary Rights that grants any Person any right or license to make, have made, manufacture, use, sell, offer to sell, import, export, or distribute any Company Product; (B) any license or grant of rights under or related to any Proprietary Rights whether the Company is licensor or licensee, with or without the right to sublicense the same; (C) joint development Contracts; (D) any Contract by which the Company grants any ownership right to any Person to any Company Proprietary Rights owned by the Company; (E) any Contract under which the Company undertakes any ongoing royalty or similar payment obligations in excess of US\$10,000 as a lump-sum payment or per annum with respect to any Company Proprietary Rights or any Company Product, (F) any Contract under which the Company grants or is granted an option, covenant not to assert, immunity from suit, right of first refusal, right of first negotiation, preemptive right, equitable interest, title retention or title reversion, in each case relating to any Proprietary Rights; (G) any Contract under which any Person is granted any right to access Company Source Code or to use Company Source Code to create derivative works of the Company Products or the Company Source Code; (H) any Contract pursuant to which the Company has deposited or is required to deposit with an escrow agent or any other Person the Company Source Code, and further describes whether the execution of this Agreement or the consummation of any of the transactions contemplated hereby could reasonably be expected to result in the release or disclosure of the Company Source Code; and (I) any Contract that by its terms limits the Company's ability to transact business in any market, field or geographical area or with any Person, or that restricts the use, transfer, delivery or licensing of Company Proprietary Rights (or any tangible embodiment thereof);

(ii) Except as otherwise Disclosed to Buyer, and except for Off-Shelf Software, there are no royalties, fees or other amounts payable by the Company to any Person by reason of the ownership, use, sale or disposition of Company Proprietary Rights of other Persons. The term "**Off-Shelf Software**" means standardized nonexclusive licenses for "off the shelf" or other software (excluding any Open Source Software) widely available through regular commercial distribution channels on standard terms and conditions obtained by the Company in the Ordinary Course of Business;

(iii) Except as otherwise Disclosed to Buyer, the Company has not entered into any Contract, license or other arrangement to defend, indemnify or hold harmless any Person against any charge of infringement of any Proprietary Rights or by any Company Product;

(iv) Part 4.21(b)(iv) of the Disclosure Schedule lists, without regard to any value threshold, each Company Product that contains, links to, relies on or otherwise uses any software that is Open Source Software, a description of such Company Product and the Open Source Software license agreement applicable to such Open Source Software or a link to where such agreement may be found. The term “**Open Source Software**” means and includes any software that contains, or is derived in any manner (in whole or in part) from, any software that is distributed as free software, open source software (e.g., Linux) or similar licensing or distribution models, including without limitation any model that requires the distribution of source code to licensees, including without limitation software licensed or distributed under any of the following licenses or distribution models, or licenses or distribution models similar to any of the following: (i) GNU’s General Public License (GPL) or Lesser/Library GPL (LGPL); (ii) the Artistic License (e.g., PERL); (iii) the Mozilla Public License; (iv) the Netscape Public License; (v) the Sun Community Source License (SCSL); (vi) the Sun Industry Standards License (SISL); (vii) the BSD License; (viii) the Apache License; and (ix) any licenses that are defined as OSI (Open Source Initiative) licenses as listed on the site www.opensource.org.

(c) Except as otherwise Disclosed to Buyer:

(i) No other Person owns jointly with the Company licenses or claims any right, title or interest in any Company Proprietary Rights. No current or former officer, manager, director, shareholder, member, employee, consultant or independent contractor of the Company has any right, title or interest in, to or under any Company Proprietary Rights that has not been exclusively assigned, transferred or licensed to the Company;

(ii) No Person has asserted or Threatened a claim, nor are there to the Knowledge of Seller and the Company any facts which could reasonably give rise to a claim or Proceeding which would adversely affect the Company’s (A) ownership rights to any Company Proprietary Rights, or (B) rights under any Contract under which the Company may claim any right, title or interest relating to any Company Proprietary Rights, or which would restrict in any material respect the use, transfer, delivery or licensing by the Company of the Company’ Proprietary Rights or Company Products;

(iii) The Company is not subject to any Proceeding or outstanding decree, order, judgment or stipulation restricting in any manner the use, transfer or licensing of any Company Proprietary Rights by the Company, or the use, transfer or licensing of any Company Product by the Company, or which may affect the validity, use or enforceability of any Company Proprietary Rights;

(iv) To the Knowledge of Seller and the Company, no Related Person of Seller or the Company is using, exploiting, practicing, infringing, violating or misappropriating any Company Proprietary Right and no Company Proprietary Rights have been infringed or misappropriated by any Person. To the Knowledge of Seller and the Company,

there is no unauthorized use, disclosure or misappropriation of any Company Proprietary Rights by any current or former officer, manager, director, shareholder, member, employee, consultant or independent contractor of the Company;

(v) All Patents (including without limitation all inventions claimed therein) owned by or purported to be owned by the Company have been validly assigned and transferred to the Company, no third Person has any rights with respect to any of such Patents, all compensation to be paid under applicable Legal Requirements has been paid to the inventors of the inventions claimed in such Patents, and no such Patents have lapsed, expired or been abandoned; and

(vi) All Registered Copyrights, Registered Trademarks and domain names included in the Company Proprietary Rights (A) have been duly filed or registered (as applicable) with the applicable Government Entity, and prosecuted and maintained, including without limitation the timely submission of all necessary filings and payment of fees in accordance with the legal and administrative requirements of the appropriate jurisdictions, (B) have not lapsed, expired or been abandoned and (C) no opposition proceedings have been commenced related thereto in any jurisdictions which such procedures are available nor does there exist any fact that could lead to any such opposition.

(d) Except as set forth on Part 4.21(d) of the Disclosure Schedule:

(i) all Patents in which the Company has any right, title or interest have been duly filed or registered (as applicable) with the applicable Government Entity in accordance with all applicable legal and regulatory requirements of such Government Entity, and maintained, including the submission of all necessary filings and fees in accordance with the legal and administrative requirements of the appropriate Government Entity, and have not lapsed, expired or been abandoned;

(ii) (A) all Patents in which the Company has any right, title or interest, disclose patentable subject matter, have been prosecuted in good faith, are subsisting and are in good standing, (B) there are no pending inventorship challenges or other claims pertaining to any such Patents, (C) no interference has been declared or provoked relating to any such Patents, (D) no opposition proceedings have been commenced related to such Patents in any jurisdictions which such procedures are available, and (E) all Issued Patents in which the Company has any right, title or interest are valid and enforceable, and (F) all owed and due maintenance and annual fees have been fully paid, and all fees paid during prosecution and after issuance of any patent have been paid in the correct entity status amounts;

(iii) to the Knowledge of Seller and the Company there is no material fact with respect to any Patent Application in which the Company has any right, title or interest that would (i) preclude the issuance of an Issued Patent from such Patent Application, or (ii) render any Issued Patent issuing from such Patent Application invalid or unenforceable;

(iv) neither Seller nor the Company has received any notice of any inventorship challenge, interference in connection with a pending application, invalidity or unenforceability with respect to Patents included in the Company Proprietary Rights; and

(v) Neither the conduct of the Business as conducted on and prior to the Closing Date and as proposed to be conducted by the Company as an Affiliate of Buyer after the Closing Date, nor the making, using, offering for sale, selling, otherwise distributing or importing of any Company Product (or any Company Proprietary Rights embodied in any Company Product), infringes on or will infringe on the rights of or constitutes misappropriation or unlawful use of any Proprietary Rights of any Person. No Person has asserted or threatened a claim in writing, nor are there any facts which could reasonably give rise to a claim, that the conduct of the Business or any Company Product (or any Company Proprietary Rights embodied in any Company Product) infringes on the rights of, misappropriates or unlawfully uses any Person's Proprietary Rights. No Person has, arising out of any disclosed or undisclosed possible infringement of its Proprietary Rights by the Company, notified Seller or the Company in writing, (i) offering a license for any of such Person's Proprietary Rights to Seller or the Company related to any Company Product or business, or (ii) that Seller or the Company requires a license to any of such Person's Proprietary Rights with respect to any Company Product or business, in each case of (i) and (ii) excluding any offers for licenses for software that is not currently included in a Company Product and which would add features or functions to a Company Product.

(e) To the Knowledge of Seller and the Company there does not exist any fact with respect to the Registered Trademarks included in the Company Proprietary Rights that would (i) preclude the issuance of any Registered Trademarks from any trademark applications, or (ii) render any such issued Registered Trademarks invalid or unenforceable. The Company has taken commercially reasonable and customary measures and precautions necessary to protect and maintain its Registered Trademarks included in the Company's Proprietary Rights and otherwise to maintain and protect the value of all such Registered Trademarks. To the Knowledge of Seller and the Company there does not exist any fact with respect to any Copyrights included in the Company Proprietary Rights that would preclude the issuance of any Registered Copyright from any filed copyright applications.

(f) Seller and the Company have taken all commercially reasonable and customary measures and precautions reasonably required to protect and maintain the confidentiality of all Trade Secrets in which the Company has any right, title or interest and otherwise to maintain and protect the value of all such Trade Secrets. The Company has not disclosed any Trade Secrets to any Person without having the recipient thereof execute a written Contract regarding the non-disclosure and non-use thereof. The Company has not received any notice from a third Person that there has been an unauthorized use or disclosure of any Trade Secrets included in the Company Proprietary Rights. Without limiting the generality of the foregoing, except as otherwise Disclosed to Buyer:

(i) All current and former employees of the Company who are or were involved in, or who have contributed to, the creation or development of any Company Proprietary Rights or Company Products have executed and delivered to the Company a Contract (containing no exceptions to or exclusions from the scope of its coverage) regarding the protection of proprietary information and the irrevocable assignment to the Company of any Proprietary Rights arising from services performed by such Persons if and to the extent that such current and former employees are not otherwise subject to the corresponding obligations and

duties based on statutory law. To the Knowledge of the Company no current or former employee is in violation of any term of any such Contract, including without limitation any patent disclosure agreement or other employment Contract or any other Contract relating to the relationship of any such employee with the Company;

(ii) All current and former consultants and independent contractors to the Company who are or were involved in, or who have contributed to, the creation or development of any Company Proprietary Rights have executed and delivered to the Company a Contract (containing no exceptions to or exclusions from the scope of its coverage) regarding the protection of proprietary information and the irrevocable assignment to the Company of any Proprietary Rights arising from services performed by such Persons if and to the extent that such current and former consultants and independent contractors are not otherwise subject to the corresponding obligations and duties based on statutory law. No current or former employee, officer, director, shareholder, consultant or independent contractor to the Company has any right, claim or interest in or with respect to any Company Proprietary Rights. To the Knowledge of the Company no current consultant or independent contractor is in violation of any term of any such Contract, including without limitation any patent disclosure agreement or any other Contract relating to the relationship of any such consultant or independent contractor with the Company; and

(iii) Except as required under Section 4.21(b)(iii) above, the Company has not disclosed or delivered to any Person, or permitted the disclosure or delivery to any escrow agent or other Person, of any Company Source Code. No event has occurred, and no circumstance or condition exists, that will, or could reasonably be expected to, result in the disclosure or delivery to any Person of any Company Source Code.

(g) To the Knowledge of the Company, except with respect to demonstration or trial copies, no Company Product designed, developed, sold, licensed or otherwise made available by the Company to any customer of the Company contains any “back door,” “time bomb,” “Trojan horse,” “worm,” “drop dead device,” “virus” or other software routines or hardware components designed to permit unauthorized access or to disable or erase software, hardware or data without the consent of such customer of the Company.

(h) No funding, facilities or personnel of any university, research institute, or Government Entity were used, directly or indirectly, to develop or create, in whole or in part, any Company Proprietary Rights or any Company Product that would afford any ownership of or any rights or licenses in, to or under any Company Proprietary Rights to such Government Entity.

(i) The execution, delivery or performance of this Agreement or any ancillary agreement contemplated hereby, the consummation of the transactions contemplated by this Agreement or such ancillary agreements and the satisfaction of any closing condition will not contravene, conflict with or result in any termination of or new or additional limitations on Buyer’s right, title or interest in or to the Company Proprietary Rights, nor will it cause: (i) the Company to grant to any other Person any right to or with respect to any Company Proprietary Rights owned by, or licensed to, any of them, (ii) the Company to be bound by, or subject to, any non compete or other restriction on the operation or scope of their respective businesses, or (iii) the Company to be obligated to pay any royalties or other fees or consideration with respect to

Proprietary Rights of any other Person in excess of those payable by the Company in the absence of this Agreement or the transactions contemplated hereby.

4.22 **Certain Development.** As of the Closing, no Related Person of Seller, is in development of any product or software that is related to the Business.

4.23 **Compliance with U.S. Foreign Corrupt Practices Act, U.K. Bribery Act, Other Applicable Anti-Corruption Laws, and Trade Sanctions Laws.**

(a) Certain definitions for this section.

(i) **“Anti-Corruption Laws”** means:

- (A) the United States Foreign Corrupt Practices Act of 1977 as amended;
- (B) the United Kingdom Bribery Act 2010;
- (C) the United Nations Convention against Corruption;
- (D) the Organization For Economic Co-operation and Development Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and related implementing legislation; and
- (E) any anti-bribery or anti-corruption related provisions in criminal and anti-competition Legal Requirements and/or or anti-bribery or anti-corruption Legal Requirements of the jurisdiction in which the company operates, together with any amending, consolidating or successor legislation or case law which has effect from time to time in the relevant jurisdiction.

(ii) **“Government Official”** means an employee or official of any government or Government Entity, as defined above, and any candidate for public office.

(iii) **“Intermediary”** means an agent, sales agent, commission agent, distributor, reseller, consultant, representative or any other third party with whom the Company transacts business and is authorized to act in any way on the Company’s behalf.

(iv) **“Trade Sanctions Laws”** means any Legal Requirements pursuant to which the United States government imposes economic trade sanctions, including but not limited to:

- (A) the Trading with the Enemy Act, as amended;
- (B) the International Emergency Economic Powers Act, as amended;
- (C) the Iran Sanctions Act, as amended;

- (D) the Comprehensive Iran Sanctions and Divestment Act, as amended;
- (E) the Export Administration Act, as amended;
- (F) all economic sanction laws, regulations and orders administered by the U.S. Department of State, the U.S. Department of Treasury and the U.S. Department of Commerce; and
- (G) any other specific country or multilateral economic sanctions laws or regulations.

(b) Seller, the Company and, to the Knowledge of the Company, Seller's and the Company's directors, officers, employees, partners, and Intermediaries have conducted their businesses in compliance with all applicable Legal Requirements promulgated under the Anti-Corruption Laws and the Trade Sanctions Laws. In particular:

(i) Neither Seller, the Company nor any director, officer, employee, partner, Intermediary, or other Person acting on behalf of Seller or the Company, has directly or indirectly, paid, offered, given, promised to pay, or authorized the payment of any money, commission, reward, gift, hospitality, inducement (including any facilitation payments) or anything else of value in violation of Anti-Corruption Laws.

(ii) No Person, acting on behalf of the Company or Seller, has directly or indirectly, accepted or requested the payment of any money, commission, reward, gift, hospitality, inducement, or anything else of value from any Person, company, partnership or other legal entity to seek to induce a Person to perform improperly any acts or omissions in violation of Anti-Corruption Laws.

(iii) The Company and its directors, officers and employees have instituted and maintained adequate appropriate policies, procedures and controls designed to ensure continued compliance with all applicable Anti-Corruption Laws.

(c) Seller acknowledges that the Company may be subject to certain Anti-Corruption Laws and Trade Sanctions Laws and understands that Buyer may be subject to the same or other Anti-Corruption Laws and Trade Sanctions Laws and that it is Buyer's policy to comply with all laws applicable to Buyer. Seller represents and warrants that it has not conducted any activity that could cause Buyer to, following the Closing (and recognizing that Buyer will own the Company and its Subsidiaries following the Closing), be in Breach of any Legal Requirements pursuant to Anti-Corruption Laws or Trade Sanctions Laws applicable to Buyer. To the Knowledge of the Company, there are no pending or Threatened claims against Seller or the Company with respect to Anti-Corruption Laws or Trade Sanctions Laws, and there are no actions, conditions or circumstances pertaining to the Company or the Business that may give rise to any future claims related to Anti-Corruption Laws or Trade Sanctions Laws.

4.24 **Sale of Products; Performance of Services.**

(a) To the Knowledge of the Company, each product, system, program, Proprietary Rights or other asset designed, developed, manufactured, assembled, sold, installed, repaired, licensed or otherwise made available by the Company to any Person, including without limitation any Company Product (ordinary wear and tear excepted):.

(i) conformed and complied in all respects with the terms and requirements of any applicable warranty or other Contract, the documentation and specifications therefor, and with all applicable Legal Requirements; and

(ii) was free of any design defect or other defect or deficiency at the time it was sold or otherwise made available, other than any immaterial bug or similar defect that would not adversely affect in any material respect such product, system, program, Company Proprietary Rights or other asset (or the operation or performance thereof).

(b) All Material installation services, programming services, repair services, maintenance services, support services, training services, upgrade services and other services that have been performed by the Company were performed properly and in full conformity with the terms and requirements of all applicable warranties and other Contracts and with all applicable Legal Requirements.

(c) No customer or other Person has asserted or Threatened to assert any claim against the Company under or based upon any warranty pursuant to a Contract provided by or on behalf of the Company relating to any product, system, program, Proprietary Rights or other asset designed, developed, manufactured, assembled, sold, installed, repaired, licensed or otherwise made available by or on behalf of the Company or any services performed by or on behalf of the Company.

4.25 **Business Relationships.** To the Knowledge of the Company, the relationships of the Company with its customers, distributors, licensors, designers and suppliers are satisfactory in all respects and the execution of this Agreement and the consummation of the Contemplated Transactions shall not adversely affect the relationships of the Company with such customers, distributors, licensors, designers and suppliers.

4.26 **Security Measures.** The Company has implemented and maintained, consistent with industry standard practices and its obligations to other Persons, adequate security and other measures necessary to protect all computers, networks, software and systems used in connection with the operation of the Company business (the “**Information Systems**”) from viruses and unauthorized access, use, modification, disclosure or other misuse. The Company has Disclosed to Buyer adequate security plans, and procedures relating to the Company Information Systems.

4.27 **Privacy.** The Company has complied with all Legal Requirements, contractual obligations, and its internal privacy policies relating to (i) the privacy of users of Internet websites owned, maintained or operated by the Company (“**Sites**”) and (ii) the collection, storage, transfer and any other processing of any personally identifiable information collected or used by the Company in any manner or maintained by third parties having authorized access to

such information. The execution, delivery and performance of this Agreement comply with all Legal Requirements relating to privacy and with the Company's privacy policies and Contracts. Copies of all current and prior privacy policies of the Company that apply to the Sites or any services provided to customers of Company have been provided to Buyer. Each such privacy policy and all materials distributed or marketed by the Company have at all times made all disclosures to users or customers in compliance with all Legal Requirements, and, to the Knowledge of the Company, none of such disclosures made or contained in any such privacy policy or in any such materials has been inaccurate, misleading or deceptive or in violation of any Legal Requirements.

4.28 Relationships with Related Persons. Except as otherwise Disclosed to Buyer, neither Seller nor any Related Person of Seller or of the Company has, or since January 1, 2009 has had, any interest in any property (whether real, personal, or mixed and whether tangible or intangible), used in or pertaining to the Company's businesses. Neither Seller nor any Related Person of Seller or of the Company owns, or since January 1, 2009 has owned (of record or as a beneficial owner) an equity interest or any other financial or profit interest in, a Person that has (i) had business dealings or a Material financial interest in any transaction with the Company, or (ii) engaged in competition with the Company with respect to any line of the products or services of such Company (a "**Competing Business**") in any market presently served by such Company. Except as otherwise Disclosed to Buyer, neither Seller nor any Related Person of Seller or of the Company is a party to any Contract with, or has any claim or right against, the Company.

4.29 Brokers. No broker, finder, investment banker or other Person is entitled to any brokerage, finder's or other fee or commission in connection with the Contemplated Transactions based upon arrangements made by or on behalf of the Company.

4.30 Disclosure.

(a) No representation or warranty of Seller or the Company in this Agreement and no statement in the Disclosure Schedule or in the Data Room contains any untrue statement of material fact or omits to state a material fact necessary to make the statements herein or therein, in light of the circumstances in which they were made, not misleading.

(b) No notice given pursuant to Section 6.2(c) will contain any untrue statement or omit to state a fact necessary to make the statements therein or in this Agreement, in light of the circumstances in which they were made, not misleading.

(c) There is no fact known to Seller or the Company (other than general economic or industry conditions) that adversely affects in a Material manner, or, as far as Seller can reasonably foresee, threatens, the assets, business, prospects, financial condition, or results of operations of the Company (on a consolidated basis) that has not been set forth in this Agreement or Disclosed to Buyer.

(d) Prior to the Data Room Image Date, Seller has uploaded, or has caused its Representatives to upload, complete and accurate responses to each diligence request made by Buyer to Seller, the Company or their Representatives in writing with respect to the transactions contemplated by this Agreement. No such response contains any untrue statement of material

fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading.

5. REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller that the following statements are true and correct:

5.1 **Organization and Good Standing.** Buyer is duly incorporated and validly existing for an unlimited duration under the laws of Luxembourg.

5.2 **Authority; No Conflict.**

(a) This Agreement constitutes the legal, valid, and binding obligation of Buyer, enforceable against Buyer in accordance with its terms. Upon the execution of the Closing Documents, the Closing Documents will constitute the legal, valid, and binding obligations of Buyer, enforceable against Buyer in accordance with their respective terms. Buyer has the absolute and unrestricted right, power, and authority to execute and deliver the Closing Documents and to perform its obligations under the Closing Documents.

(b) Neither the execution and delivery of this Agreement by Buyer nor the consummation or performance of any of the Contemplated Transactions by Buyer will give any Person the right to prevent, delay, or otherwise interfere with any of the Contemplated Transactions pursuant to:

- (i) any provision of Buyer's Organizational Documents;
- (ii) any resolution adopted by the board of directors or the shareholders of Buyer; or
- (iii) any Legal Requirement or Order to which Buyer may be subject.

(iv) Buyer is not and will not be required to 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 Contemplated Transactions.

5.3 **Certain Proceedings.** Except as otherwise disclosed to Seller, 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 Contemplated Transactions. To the Knowledge of Buyer, no such Proceeding has been Threatened.

5.4 **Brokers or Finders.** Buyer and its officers and agents have incurred no obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with this Agreement and will indemnify and hold Seller harmless from any such payment alleged to be due by or through Buyer as a result of the action of Buyer or its officers or agents.

6. CERTAIN PRE-CLOSING AND POST-CLOSING COVENANTS

6.1 **Access and Investigation.** During the period from the date of this Agreement through the Closing Date Time (the “*Pre-Closing Period*”), subject to (i) applicable Antitrust Laws and regulations relating to the exchange of information, and (ii) applicable Legal Requirements protecting the privacy of employees and personnel files, Seller shall, and shall cause the Company and their Representatives during regular office hours to: (A) provide Buyer and Buyer’s Representatives with reasonable access to the Company’s directors, officers, and assets and to all existing books, records, Tax Returns, work papers, agreements, Contracts (including Contracts with security holders and Contracts relating to Proprietary Rights), and other documents, and financial, operating and other data and information regarding the Company; and (B) cause its officers to confer regularly with Buyer concerning the status of the Company’s business, in each case as Buyer may reasonably request. Without limiting the generality of the foregoing, during the Pre-Closing Period, Seller shall, and shall cause the Company to, promptly provide Buyer with, or afford Buyer the right to make, copies of (A) all material operating and financial reports relating to the Company prepared by Seller or the Company for Seller or an Company’s senior management, including copies of the unaudited monthly consolidated financial statements; (B) any written materials or communications sent by or on behalf of the Company to Seller; (C) any notice, report or other document filed with or sent to any Government Entity in connection with the Contemplated Transactions; and (D) any material notice of alleged violations or legal non-compliance received by the Company from any Government Entity.

6.2 **Operation of the Company’s Business.**

(a) During the Pre-Closing Period, subject to applicable Antitrust Laws and regulations relating to the taking of influence on an acquired business prior to the completion of the underlying acquisition agreements, Seller will, and will cause the Company to, consult with Buyer about any Material operational matters and:

(i) ensure that each of the Company (A) conducts its business and operations in the Ordinary Course of Business and (B) complies with all applicable Legal Requirements and all Material Contracts (which for the purpose of this Section 6.2 shall include any Contract that would be a Material Contract if existing on the date of this Agreement);

(ii) preserve intact the current business organization of the Company, use its best efforts to keep available the services of the current officers, employees, and agents of the Company, and maintain the relations and good will with suppliers, customers, landlords, creditors, employees, agents, and others having business relationships with the Company; and

(iii) keep in full force all insurance policies referred to in Section 4.17.

(b) During the Pre-Closing Period, except as specifically contemplated by this Agreement, the Company shall not, and Seller shall cause the Company to not, without the prior written consent of Buyer:

(i) (A) declare, set aside or pay any dividends on, or make any other distributions (whether in cash, stock or property) in respect of, any of its capital stock, share capital or other equity or voting interests, except for dividends by a direct or indirect wholly owned Subsidiary of the Company to its parent and the distribution of excess cash according to Section 6.3 below, (B) split, combine or reclassify any of its capital stock, share capital or other equity or voting interests, or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, share capital or other equity or voting interests, (C) purchase, redeem or otherwise acquire any shares of capital stock, share capital or any other securities of the Company or any options, warrants, calls or rights to acquire any such shares or other securities, or (D) take any action that would result in any change of any term (including any conversion price thereof) of any debt security of the Company;

(ii) issue, deliver, sell, pledge or otherwise encumber any shares or its capital stock, share capital or any other equity or voting interests or any securities convertible into, or exchangeable for, or any options, warrants, calls or rights to acquire or receive, any such shares, interests or securities or any stock appreciation rights, phantom stock awards or other rights that are linked in any way to the price of the Company's share capital or the value of the Company or any part thereof;

(iii) amend or propose to amend its certificate of incorporation or bylaws (or similar organizational documents) or Organizational Documents or effect or become a party to any merger, consolidation, share exchange, business combination, recapitalization or similar transaction;

(iv) acquire by merger or consolidation, or by purchasing all or a substantial portion of the assets of, or by purchasing all or a substantial equity or voting interest in, or by any other manner, any business or any corporation, partnership, limited liability company, joint venture, association or other entity or division thereof;

(v) acquire any Material assets or a license therefore, other than in the Ordinary Course of Business, or incur any capital expenditures, or any obligations or liabilities in connection therewith, except pursuant to existing Contracts or that, in the aggregate, would not exceed US\$75,000 during any fiscal quarter;

(vi) enter into any lease or sublease of real property (whether as a lessor, sublessor, lessee or sublessee) or change, terminate or fail to exercise any right to renew any lease or sublease of real property other than the Building Lease referred to in Section 6.7(b) below;

(vii) sell, grant a license in, mortgage or otherwise encumber or subject to any Encumbrance or otherwise dispose of any of its properties or assets, other than the sale of inventory and the granting of licenses in the Ordinary Course of Business;

(viii) repurchase, prepay or incur any indebtedness or guarantee any indebtedness of another Person or issue or sell any debt securities or options, warrants, calls or other rights to acquire any debt securities of the Company, guarantee any debt securities of another Person, enter into any "keep well" or other agreement to maintain any financial

statement condition of another Person or enter into any arrangement having the economic effect of any of the foregoing;

(ix) make any loans, advances or capital contributions to, or investments in, any other Person, other than the Company and except for any loans necessary for the distribution of excess cash according to Section 6.3 below and customary travel advances to employees;

(x) (i) pay, discharge, settle or satisfy any Material claims (including claims of shareholders and any shareholder litigation relating to this Agreement, the Contemplated Transactions or otherwise), liabilities or obligations (whether absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge, settlement or satisfaction in the Ordinary Course of Business or as required by their terms as in effect on the date of this Agreement of claims, liabilities or obligations reflected or reserved against in the most recent Financial Statements or incurred since the date of such Financial Statements in the Ordinary Course of Business, (ii) waive, release, grant or transfer any right other than in the Ordinary Course of Business, or (iii) commence any Proceeding;

(xi) enter into any Material Contract:

(A) except in the Ordinary Course of Business;

(B) if consummation of the transactions contemplated by this Agreement or compliance by Seller and the Company with the provisions of this Agreement will conflict with, or result in any violation or Breach of, or default under, or give rise to a right of, or result in, termination, cancellation or acceleration of any obligation or to a loss of a benefit under, or result in the creation of any Encumbrance in or upon any of the properties or assets of the Company or Buyer or any of its Subsidiaries under, or give rise to any increased, additional, accelerated or guaranteed rights or entitlements under, any provision of such Contract;

(C) containing any restriction on the ability of the Company to assign all or any portion of its rights, interests or obligations there under, unless such restriction expressly excludes any assignment to Buyer and its Subsidiaries in connection with or following the consummation of the Contemplated Transactions; or

(D) of the type described in Section 4.16.

(xii) change or terminate any Contract to which the Company is a party, or waive, release or assign any rights or claims there under, in each case in a manner adverse to the Company, taken as a whole;

(xiii) except as required by applicable Legal Requirements, adopt or enter into any collective bargaining agreement or other labor union Contract applicable to the employees of the Company;

(xiv) hire any new employee at the level of manager or above or with an annual base salary in excess of US\$100,000, promote any employee except in order to fill a

position vacated after the date of this Agreement, or engage any independent contractor whose engagement may not be terminated by the relevant Company on 30 days' notice or less;

(xv) increase in any manner the compensation or benefits of, or pay any bonus to, any employee, officer, director or independent contractor of the Company;

(xvi) except as required to comply with applicable Legal Requirements or any Contract or Benefit Plan in effect on the date of this Agreement:

(A) pay to any employee, officer, director or independent contractor of the Company any benefit not provided for under any Contract or Benefit Plan in effect on the date of this Agreement,

(B) grant any awards under any Benefit Plan (including the grant of Company Options, stock appreciation rights, stock based or stock related awards, performance units or restricted stock or the removal of existing restrictions in any Contract or Benefit Plan or awards made there under),

(C) take any action to fund or in any other way secure the payment of compensation or benefits under any Contract or Benefit Plan,

(D) take any action to accelerate the vesting or payment of any compensation or benefit under any Contract or Benefit Plan,

(E) adopt, enter into or amend any Benefit Plan other than offer letters entered into with new employees in the Ordinary Course of Business that provide, except as required by applicable Legal Requirements for "at will employment" with no severance benefits, or

(F) make any material determination under any Benefit Plan that is not in the Ordinary Course of Business;

(xvii) (A) fail to accrue a reserve in its books and records and financial statements in accordance with past practice for Taxes payable by the Company, (B) settle or compromise any Proceeding relating to any material Tax or (C) revoke any Tax election;

(xviii) except as required by IFRS or applicable Legal Requirements, change its fiscal year, revalue any of its Material assets or make any changes in financial or Tax accounting methods, principles or practices;

(xix) take any action (or omit to take any action) if such action (or omission) would, or would be reasonably likely to result in (A) any representation and warranty of Seller set forth in this Agreement that is qualified as to materiality becoming untrue (as so qualified) or (B) any such representation and warranty that is not so qualified becoming untrue in any material respect;

(xx) engage in:

(A) any Material trade loading practices or any other promotional sales or discount activity with any customers or distributors with the effect of accelerating to prior fiscal quarters (including the current fiscal quarter) sales to the trade or otherwise that would otherwise be expected (based on past practices) to occur in subsequent fiscal quarters,

(B) any practice which would have the effect of accelerating to prior fiscal quarters (including the current fiscal quarter) collections of receivables that would otherwise be expected (based on past practices) to be made in subsequent fiscal quarters, including, but not limited to, by changing due dates, entering into factoring arrangements or granting of discounts or other benefits for accelerated payment, or inducing customer advances; or

(C) any practice which would have the effect of postponing to subsequent fiscal quarters expenses by the Company that would otherwise be expected (based on past practices) to be accrued in prior fiscal quarters (including the current fiscal quarter);

(xxi) change any of its pricing policies, product return policies, product maintenance policies, service policies, product modification or upgrade policies, personnel policies or other business policies, in any material respect;

(xxii) permit, or take any action or fail to take any action that could result in or increase the likelihood of, (A) any transfer or disclosure by the Company of any Company Source Code or (B) a release from any escrow of any Company Source Code that has been deposited or is required to be deposited in escrow under the terms of such Company Contract;

(xxiii) authorize any of, or commit, resolve or agree to take any of, the foregoing actions.

(c) During the Pre-Closing Period, Seller shall promptly notify Buyer in writing of:

(i) the discovery by Seller or the Company of any event, condition, fact or circumstance that occurred or existed on or prior to the date of this Agreement and that caused or constitutes an inaccuracy in any representation or warranty made by Seller in this Agreement;

(ii) any event, condition, fact or circumstance that occurs, arises or exists after the date of this Agreement and that would cause or constitute an inaccuracy in any representation or warranty made by Seller in this Agreement if such representation or warranty had been made as of the time of the occurrence, existence or discovery of such event, condition, fact or circumstance;

(iii) any Breach of any covenant of Seller;

(iv) any Proceeding pending against or with respect to the Company in respect of any Tax matter;

(v) any event, condition, fact or circumstance that would make the timely satisfaction of any of the conditions set forth in Section 7 or Section 8 impossible or unlikely or that has had or could reasonably be expected to have a Material Adverse Effect;

(vi) (A) any notice or other communication from any Person alleging that the Consent of such Person is or may be required in connection with the transactions contemplated by this Agreement, and (B) any Proceeding or claim threatened, commenced or asserted against or with respect to the Company or the transactions contemplated by this Agreement; and

(vii) any Material change to the financial performance or business of the Company.

No notification given to Buyer pursuant to this Section 6.2(c) shall limit or otherwise affect any of the representations, warranties, covenants or obligations of Seller contained in this Agreement.

6.3 Distribution of Excess Cash

(a) Between the date of this Agreement and the Closing, after the consummation of the Building Transfer, the Seller shall cause Ismeca Europe Semiconductor SA or Ismeca Semiconductor Holding SA's other Subsidiaries, as applicable, to (i) make and pay the Bonus Accruals and the LTIP Accruals (each as defined in Section 7.9 below) (estimated to be CHF 3,747,693 as of the date of this Agreement, as may be adjusted up or down up to 10%) and (ii) make and pay the Divestment Plan Accruals (as defined in Section 7.9 below) (estimated to be approximately CHF 3,252,300), both (i) and (ii) as per Section 7.9 below, and (iii) make and pay the necessary accruals for social security and pension contributions and any other contributions or Taxes levied on or related to (i) and (ii) ((i) to (iii) collectively, "**Bonus Related Costs**") (it being understood that the amount of such Bonus Related Costs, to the extent not paid prior to Closing, shall be considered Estimated Net Debt and Net Debt, respectively, for the purpose of the calculation of the Purchase Price and the Purchase Price Adjustment pursuant to Section 3 above), out of its respective available cash (approximately CHF 14,200,000, as of October 31, 2012, to which the proceeds of the Building Transfer as per Section 6.7 in the amount of approximately CHF 18,000,000 will be added, resulting in a total expected consolidated cash amount of CHF 32,200,000).

Out of the remaining consolidated amount of cash of the Company, the Seller shall cause (i) the Company to maintain a consolidated cash position of approximately CHF 3,000,000 for its working capital needs (the "**Company Target Cash**"), (ii) Ismeca Europe Semiconductor SA to fully repay an outstanding intra-group loan in the amount of CHF 15,050,000 plus interest to Ismeca Semiconductor Holding SA (the "**Intra-Group Loan Repayment**") and (iii) Ismeca Europe Semiconductor SA to enter into a loan agreement with Ismeca Semiconductor Holding SA, under which Ismeca Europe Semiconductor SA grants and immediately provides funds to Ismeca Semiconductor Holding SA pursuant to a short term loan in the amount of Ismeca Europe Semiconductor SA's residual cash (after deduction of that portion of the Company Target Cash that is remaining in Ismeca Europe Semiconductor SA), but in no event exceeding the expected aggregate amount of Ismeca Europe Semiconductor SA's expected freely disposable retained

earnings and free equity as per 31 December 2012 (i.e. the sum of (i) retained earnings as per 31 December 2011, (ii) expected earnings from operations in 2012, (iii) expected gain resulting from the Building Transfer and (iv) the expected freely disposable reserves as per 31 December 2012), at such annual interest rate consistent with the annually updated Swiss Federal Tax Administration's (the "**SFTA**") Circular Letter "safe haven interest rates", which is 1.5% from the date hereof through the year 2012 and is updated for each subsequent year (the "**Short Term Loan**").

(b) Between the date of this Agreement and Closing, after Ismeca Europe Semiconductor SA has made the Intra-Group Loan Repayment and entered into and funded the Short Term Loan to Ismeca Semiconductor Holding SA, Seller shall cause Ismeca Semiconductor Holding SA to distribute, as an extraordinary dividend up to the amount of its freely disposable retained earnings and freely disposable reserves as per 31 December 2011 to the Seller all of its cash position after deduction of that portion, if any, of the Company Target Cash, not remaining in Ismeca Europe Semiconductor SA and in Ismeca Semiconductor Holding SA's other Subsidiaries (such distribution being the "**Dividend**" and the shareholder's resolution to distribute the Dividend, the "**Dividend Resolution**", with any consolidated cash remaining in the Company after payment of the Dividend the "**Company Remaining Cash**"). To the extent that such Company Remaining Cash amount (which does, for the avoidance of doubt, include the Company Target Cash) exceeds CHF 7,000,000, any such excess amount shall not be considered Net Cash in the calculation of the Purchase Price and the Purchase Price Adjustment pursuant to Section 3 above. Seller shall notify the Dividend to the SFTA pursuant to the unilateral notification procedure of art. 26a of the Ordinance to the Swiss Withholding Tax Act. Seller shall and shall cause the Company to make any Dividend Filings (as defined below) within 30 calendar days of the Dividend Resolution, but in any event prior to the Closing. As used herein, "**Dividend Filings**" shall include any filings, by registered mail, that may be deemed necessary or appropriate for obtaining favorable Tax treatment in connection with or as a result of the Dividend, including but not limited to the filing of duly completed and signed Forms 102 and 106.

(c) Seller shall indemnify and hold harmless Indemnified Buyer Persons from and against any Bonus Related Costs assessed against or payable by the Company or its Subsidiaries with respect to the events contemplated in this Section 6.3 and any Damages in connection therewith.

6.4 Regulatory Approvals.

(a) Subject to Section 6.4(c) and 6.4(d), Buyer and Seller shall, and Seller shall cause the Company to, use commercially reasonable efforts to take, or cause to be taken, all actions necessary to consummate the Contemplated Transactions. Without limiting the generality of the foregoing, but subject to Section 6.4(c) and 6.4(d), Buyer and Seller (i) shall make all filings (if any) and give all notices (if any) required to be made and given by such Party in connection with the Contemplated Transactions and shall submit promptly any additional information requested in connection with such filings and notices, (ii) shall use commercially reasonable efforts to obtain each Consent (if any) required to be obtained (pursuant to any applicable Legal Requirement or Contract, or otherwise) by such Party in connection with the

Contemplated Transactions, and (iii) shall use commercially reasonable efforts to oppose or to lift, as the case may be, any restraint, injunction or other legal bar to the Contemplated Transactions. Seller shall promptly deliver to Buyer a copy of each such filing made, each such notice given and each such Consent obtained by Seller or the Company during the Pre-Closing Period.

(b) Without limiting the generality of Section 6.4(a), Buyer and Seller shall, promptly after the date of this Agreement, prepare and file the notifications (if any) required under any applicable Antitrust Laws or regulations in connection with the Contemplated Transactions. Buyer and Seller shall respond as promptly as practicable to any inquiries or requests received from any Government Entity in connection with antitrust or related matters relating to this Agreement or the Contemplated Transactions. Each of Buyer and Seller shall (1) give the other Party prompt notice of the commencement or threat of commencement of any Proceeding by or before any Government Entity with respect to the Contemplated Transactions, (2) keep the other Party informed as to the status of any such Proceeding or threat, and (3) promptly inform the other Party of any communication concerning Antitrust Laws to or from any Government Entity regarding the Contemplated Transactions. Except as may be prohibited by any Government Entity or by any Legal Requirement, Buyer and Seller will consult and cooperate with one another, and will consider in good faith and in advance the views of one another, in connection with any analysis, appearance, presentation, memorandum, brief, argument, opinion, proposal, or other communication made or submitted in connection with any Proceeding under or relating to any applicable Antitrust Laws. Subject to the foregoing, Buyer shall be principally responsible for and in control of the process of dealing with any Government Entity under any Antitrust Law relating to the Contemplated Transactions. In addition, except as may be prohibited by any Government Entity or by any Legal Requirement, in connection with any Proceeding under or relating to any Antitrust Law concerning the Contemplated Transactions, each of Buyer and Seller will permit authorized Representatives of the other Party to be present at and participate in each meeting or conference with a Government Entity relating to any such Proceeding and to have access to and be consulted in connection with any document, opinion or proposal made or submitted to any Government Entity in connection with any such Proceeding.

(c) At the request of Buyer, subject to Seller's written consent (which shall not be unreasonably withheld), Seller shall cause the Company to divest, sell, dispose of, hold separate or otherwise take or commit to take any action that limits its freedom of action with respect to its or its Subsidiaries' ability to retain any of the businesses, product lines or assets of the Company, provided that (i) any such action is conditioned upon the consummation of the Contemplated Transactions, and (ii) Buyer shall reimburse Seller's reasonable out-of-pocket expenses with respect to any such action if and to the extent the aggregate amount of such out-of-pocket expenses exceeds US\$25,000; provided, further that notwithstanding anything in this Agreement to the contrary, the proceeds received by the Company for any such divestiture, sale or disposal in excess of US\$25,000 shall be excluded from the Net Cash calculations for purposes of the Purchase Price Adjustment in Section 3.

(d) Notwithstanding anything to the contrary contained in this Agreement, Buyer shall not have any obligation under this Agreement: (i) to dispose of, license, transfer or

hold separate, or cause any of its Subsidiaries to dispose of, license, transfer or hold separate any assets or operations, or to commit or to cause the Company to dispose of, license, transfer, or hold separate any assets; (ii) to discontinue or cause any of its Subsidiaries to discontinue offering any product or service, or to commit to cause the Company to discontinue or commit to discontinue offering any product or service; or (iii) to make or cause any of its Subsidiaries to make any commitment (to any Government Entity or otherwise) regarding its future operations or the future operations of the Company.

6.5 **Public Announcements.** Subject to Legal Requirements and particularly any stock exchange or Securities and Exchange Commission regulations, (i) any public announcement or similar publicity with respect to this Agreement or the Contemplated Transactions will be issued, if at all, at such time and in such manner as Buyer and Seller shall agree, and (ii) prior to Closing, Buyer and Seller shall, and Seller shall cause the Company to, keep this Agreement strictly confidential and may not make any disclosure of this Agreement to any Person. Seller and Buyer will consult with each other concerning the means by which the Company's employees, customers, and suppliers and others having dealings with the Company will be informed of the Contemplated Transactions, and Buyer will have the right to be present for any such communication.

6.6 **Tax Matters.**

(a) Amended Tax Returns for CDF Holdings, Inc. and Ismeca USA Inc.. At least ten (10) business days prior to the Closing Date, Seller shall cause CDF Holdings, Inc. and (if and to the extent required) Ismeca USA Inc. to file amended consolidated US federal and state Tax Returns to correct any errors identified during due diligence in connection with the Contemplated Transactions to the reasonable satisfaction of the Buyer (the "**Amended Tax Returns**"), and pay any Tax reflected as owing, if any, on the Amended Tax Returns. Seller shall indemnify and hold harmless Indemnified Buyer Persons from and against any Taxes assessed against the Company, CDF Holdings, Inc. or Ismeca USA Inc. and Damages with respect to the matters in this Section 6.6(a).

(b) Returns and Payments for Tax Periods Ending on or Before the Closing Date:

(i) Buyer shall cause the Company to (i) prepare and file all Tax Returns that are required to be filed after the Closing Date (each, a "**Pre-Closing Period Tax Return**") of the Company for any period that ends on or before the Closing Date (each, a "**Pre-Closing Period**"), and (ii) to deliver to Seller for review and approval a copy of each Pre-Closing Period Tax Return at least fifteen (15) business days prior to the filing deadline for such Pre-Closing Period Tax Return; provided, however, Seller shall prepare and file any Pre-Closing Period Tax Returns that are part of the consolidated or combined Tax Returns of Seller. Buyer shall make, and shall direct the Company to make, any changes reasonably requested by Seller to any Pre-Closing Period Tax Return.

(ii) Seller shall cause the Company to

timely pay or accrue for all Taxes due as of the Closing Date relating to any Pre-Closing Period (“**Pre-Closing Period Taxes**”).

(c) Returns and Payments for Tax Periods during Straddle Periods.

(i) Buyer shall cause the Company to prepare and file all Tax Returns (each, a “**Straddle Period Return**”) of the Company for all periods that begin before the Closing Date and end after the Closing Date (the “**Straddle Period**”). Buyer shall cause the Company to timely pay all Taxes due on each Straddle Period Return.

(ii) Such Taxes paid by the Company, to the extent attributable to any period or portion of a period ending on or before the Closing Date, shall be referred to herein as “**Straddle Period Pre-Closing Taxes**.” Seller shall pay to Buyer within thirty (30) days of when due an amount equal to the Straddle Period Pre-Closing Taxes due with respect to any such Straddle Period Returns filed by the Company (after taking into account any estimated Taxes paid prior to the Closing and legally credited to the Company) ; provided, however, that Buyer shall repay or cause to be repaid to Seller any amounts paid by Seller if and to the extent such paid Straddle Period Pre-Closing Taxes are reduced in a final and non-appealable assessment of the relevant Tax.

(iii) Because the Straddle Period Pre-Closing Taxes involve a period that begins before and ends after the Closing Date, such Straddle Period Pre-Closing Taxes shall be calculated as follows: For purposes of this Section 6.6(c), in the case of any Taxes that are imposed on a periodic basis and are payable for a Straddle Period, the portion of such Taxes that relates to the portion of the Straddle Period ending on or before the Closing Date shall (A) in the case of any Taxes other than Taxes based upon or related to income, revenue or receipts, be deemed to be the amount of such Taxes for the entire Straddle Period multiplied by a fraction, the numerator of which is the number of days in the Straddle Period from the first day of the Straddle Period through and including the Closing Date, and the denominator of which is the number of days in the entire Straddle Period, and (B) in the case of any Taxes based upon or related to income, revenue or receipts, be deemed equal to the amount that would be payable if the relevant Straddle Period ended on the Closing Date, using the “closing of the books” method of accounting. Any credits relating to a Straddle Period shall be taken into account as though the relevant Straddle Period ended on the Closing Date.

(d) Indemnification. Seller shall indemnify and hold harmless Indemnified Buyer Persons from and against any (A) Straddle Period Pre-Closing Taxes of the Company that relate to a Straddle Period, (B) Taxes assessed against the Company with respect to all taxable periods ending on or prior to the Closing Date, including any Pre-Closing Period Taxes, (C) Taxes of any Related Person (other than the Company) imposed on the Company as a transferee or successor, by contract or pursuant to any Legal Requirements, rule or regulation, which Taxes relate to an event or transaction occurring before the Closing Date. A claim for indemnification under this Section 6.6(d) may be asserted by notice to Seller. Buyer shall cause the Company to promptly notify Seller in writing upon receipt by the Company or any of its Related Persons of notice of any pending or threatened Tax audits or assessments that may affect the Tax liabilities of the Company and for which Seller could be liable under this Section 6.6(d). Notwithstanding the foregoing, a failure to notify Seller as provided above shall not relieve Seller of any and all

liability under this Section 6.6(d), except to the extent that Seller demonstrates that the defense of such audit or assessment is materially prejudiced by the failure to give such notice.

(e) Tax Disputes. Seller, on the one hand, and Buyer, on the other hand, shall provide to each other notice within five (5) business days of receipt of any notice of deficiency, proposed adjustment, assessment, audit, examination or other administration or court proceeding, suit, dispute or other claim (a “**Tax Matter**”) in which a Government Entity or other Tax authority makes or proposes to make a Tax adjustment to any Pre-Closing Period. Seller shall control the conduct of any Tax Matter that: (i) could adversely affect the Taxes of Seller, or (ii) could result in Seller being liable for any amount of Taxes or losses related thereto, either under Legal Requirements or pursuant to this Agreement (a “**Seller Tax Claim**”), but only to the extent that the resolution of such Seller Tax Claim could not adversely affect the Tax liability of Buyer or its Affiliates. Buyer shall control all other proceedings. With respect to any Tax Matter, the Party not controlling the proceeding of such Tax Matter or its representative shall (to the extent permitted by Legal Requirements) have the right, at its expense, to participate in any such Tax Matter. Seller shall not settle, compromise or agree to any Tax adjustment which affects or could affect Buyer’s Tax liability without the prior written consent of Buyer, which consent shall not be unreasonably withheld; provided, that Seller shall have the right to settle or compromise any such proceedings without the consent of Buyer to the extent such settlement or compromise will not adversely affect the Tax liability of Buyer or any Affiliate thereof (including the Company) after the Closing Date, and Buyer shall have the right to settle or compromise any such proceedings without the consent of Seller to the extent such settlement or compromise will not adversely affect the Tax liability of Seller or any Affiliate thereof prior to the Closing Date.

(f) Cooperation. After the Closing Date, the Parties shall, and Buyer shall cause the Company to, make available to the other, as reasonably requested, and to any taxing authority (which such authority is legally permitted to receive pursuant to its subpoena power or its equivalent) all information, records or documents relating to Tax liabilities or potential Tax liabilities of Seller for all periods prior to or including the Closing Date and shall preserve all such information, records and documents until the expiration of any applicable statute of limitations for assessment or refund of Taxes or extensions thereof. After the Closing Date, the Parties shall, and Buyer shall cause the Company to, cooperate fully, as and to the extent reasonably requested by the other, in connection with any Seller Tax Claim or the filing of Tax Returns pursuant to this Section 6.6 and any audit, litigation, appeal, hearing or other proceeding with respect to Taxes. Such cooperation shall include providing the information, records and documents described above and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided. Each Party shall bear its own costs and expenses incurred in such cooperation efforts.

(g) Tax Sharing Agreements. Seller shall terminate any Tax allocation or Tax sharing agreement (other than this Agreement) between or among Seller or any Related Persons on the one hand, and the Company on the other hand, effective as of the Closing Date.

(h) Transfer Taxes. Any sales Tax, use Tax, value added Tax, goods and services Tax, real property transfer Tax, capital gains and similar Tax, documentary stamp Tax,

transfer Tax (including the Swiss turnover stamp duty (*Umsatzabgabe*), motor vehicle Tax, registration Tax or similar Tax or recording expense, notarial fee or other charge, expense or fee attributable to, imposed upon or arising from the Contemplated Transactions shall be equally shared by Buyer and Seller. Buyer and Seller shall cooperate in the execution and delivery of any certificates or forms as may be necessary and appropriate to establish an exemption from (or otherwise reduce) such Taxes, charges, expenses and fees.

(i) Elections and Changes. In preparing the Tax Returns referenced in Sections 6.6(a), 6.6(b) and 6.6(c), Seller shall not make or cause to be made any material Tax election or change any material income Tax accounting method or period without the prior written consent of Buyer.

6.7 Building Transfer and Leaseback.

(a) Seller and the Company will cause the building owned by Ismeca Europe Semiconductor SA located at Rue Louis-Joseph-Chevrolet 5, 5A and 7, Rue de l'Helvétie 283 and Passage de la Bonne Fontaine in La Chaux-de-Fonds (property nos. Building 3515, Building 3516, D4224 and D4250 and servitude no. RS 7683 following DDP No. D6199 in the land register Les Eplatures) (the "**Building**") to be transferred no later than December 21, 2012 (the "**Building Transfer**") to either (a) to Nerwal SA (the "**SPV**", and such transfer, an "**SPV Building Transfer**") or (b) a third party that is not an Affiliate of Seller (the "**Third Party Buyer**"), in each case pursuant to a sale and purchase agreement in French language, substantially in the form as the English language version attached hereto as Exhibit 6.7(a) (the "**Building Sale Agreement**"). The SPV or Third Party Buyer, as applicable shall bear all related notarization and other costs, fees and Taxes (to the extent possible pursuant to applicable tax laws), which may become due in connection with the Building Transfer. To the extent possible, all and any Taxes shall be deducted directly from the proceeds of the Building Transfer and paid directly to the Tax authorities. Any and all Tax loss carryforwards of the Company which are available on or before the Closing Date shall be used for the benefit of the Company for set-off against any profit resulting from the Building Transfer. Seller shall indemnify and hold Indemnified Buyer Persons harmless for any Tax assessed or Damages in connection with the Building and the Building Transfer.

(b) In addition, concurrently with the notarization of the Building Sale Agreement, Ismeca Europe Semiconductor SA and either the SPV or Third Party Buyer, as applicable, shall enter into a ten (10) year lease for the Building pursuant to a lease agreement in substantially the form attached hereto as Exhibit 6.7(b) (the "**Building Lease**") and shall file the signed Building Lease, together with the notarized Building Sale Agreement, with the land registry. As used in this Agreement, the "**Building Transfer Condition**" shall be deemed to have been met if Seller has provided evidence reasonably satisfactory to Buyer that (i) the Building Sale Agreement has been signed by Ismeca Europe Semiconductor SA and the SPV or the Third Party Buyer, as applicable, and notarized, (ii) the purchase price with respect to the Building Transfer has been paid to the bank account of Ismeca Europe Semiconductor SA on or before one (1) business day prior to the notarization of the Building Sale Agreement, and (iii) the Building Lease has been entered into by Ismeca Europe Semiconductor SA and either the SPV or

Third Party Buyer, as applicable, and (iv) the Building Sale Agreement and the Building Lease have been filed with the land registry.

(c) In the case of an SPV Building Transfer, immediately following the notarization of the Building Sale Agreement, Seller shall cause the SPV to hold an extraordinary shareholders' meeting and to amend its articles of association based on a new founders report and an auditors confirmation, to replace the provision on the initial intended acquisition in kind (*beabsichtigte Sachübernahme*) by a provision on the effective acquisition in kind (*Sachübernahme*) and have such change registered in the commercial register of the Canton of Neuchâtel, all satisfactory to the Buyer.

(d) During the Pre-Closing Period, prior to the Building Transfer, Seller shall obtain, or cause the Company to obtain, a tax ruling (the "**Tax Ruling**") by the SFTA, confirming that, in case of an SPV Building Transfer, any subsequent sale of the Building or of the SPV, within a price range from CHF 16,000,000 to CHF 19,000,000, will not give rise to any Taxes being assessed against the Company or its Subsidiaries (it being understood, for the avoidance of doubt, that Seller shall fully indemnify and hold harmless the Indemnified Buyer Persons from and against any Tax consequences arising from the Building Transfer and any subsequent sale of the Building, which is not in line with the Tax Ruling).

6.8 Employment; Employee Benefits. Each U.S. employee of the Company who continues employment with the Company after Closing (a "**U.S. Continuing Employee**") shall be eligible to participate in Buyer's health, vacation and other non-equity based employee benefit plans; provided, however, that nothing in this Section 6.8 or elsewhere in this Agreement shall limit the right of Buyer to amend or terminate any such health, vacation or other employee benefit plan at any time. Nothing in this paragraph shall be interpreted to require Buyer to provide for the participation of any U.S. Continuing Employee in any Plan of Buyer.

6.9 Seller Related Intellectual Property.

(a) With respect to any Proprietary Rights owned, as of the Closing Date, by the Seller or by any of Seller's Affiliates (other than the Company and its Affiliates) (collectively, the "**Seller Affiliates**") that is used exclusively by the Company (or its Affiliates) as of the Closing Date or that is anticipated to be exclusively used by the Company (or any of its Affiliates) following the Closing Date in connection with the Company's (or any of its Affiliates') business plans or product roadmaps for the conduct of the Business, as such plans and roadmaps are contemplated by the Company (or any of its Affiliates) as of the Closing Date (the "**Anticipated Business**") (the "**Exclusive Proprietary Rights**"), Seller, on behalf of itself and the Seller Affiliates hereby sells, conveys and assigns to the Company the Exclusive Proprietary Rights. Seller shall deliver any tangible embodiments of the Exclusive Proprietary Rights (e.g., software and documentation) to the Company at the Closing. Seller represents and warrants to Buyer that Seller has the right to assign the Exclusive Proprietary Rights to the Company on behalf of Seller and the Seller Affiliates. Seller shall, and shall cause the Seller Affiliates to, execute assignment documents by the owner of record of the Exclusive Proprietary Rights (or any other necessary Person under the direction or control of Seller or a Seller Affiliate), and where applicable file, or cause to be filed by the owner of record (or any other such necessary

Person), assignment documents with any applicable Registration Office(s), assigning all the Exclusive Proprietary Rights to the Company.

(b) With respect to any Proprietary Rights owned, as of the Closing Date, by the Seller or by any Seller Affiliate (i) that is used by the Company (or its Affiliates) as of the Closing Date or constitutes part of the Anticipated Business, and (ii) that is used by Seller or one or more of the Seller Affiliates in the conduct of their businesses (collectively, the “**Non-Exclusive Proprietary Rights**”), Seller, on behalf of itself and the Seller Affiliates, hereby grants to the Company and its Affiliates a non-exclusive, perpetual, irrevocable, worldwide, royalty-free, fully paid up, transferable license, with the right to sublicense, under the Non-Exclusive Proprietary Rights to fully use, practice and exploit such Non-Exclusive Proprietary Rights, including without limitation to develop, use, make, have made, sell, offer for sale, lease, import and export product and services. Seller shall deliver copies of any tangible embodiments of the Non-Exclusive Proprietary Rights (e.g., software and documentation) to the Company at the Closing. Seller represents and warrants to Buyer that Seller has the right to grant to the Company and its Affiliates the foregoing license under the Non-Exclusive Proprietary Rights on behalf of Seller and the Seller Affiliates.

(c) With respect to Proprietary Rights owned by a third party and licensed, as of the Closing Date, to the Seller or to any Seller Affiliate and that is used exclusively by the Company (or its Affiliates) as of the Closing Date or constitutes part of the Anticipated Business (the “**Exclusive Licensed Proprietary Rights**”), Seller, on behalf of itself and the Seller Affiliates hereby sells, conveys and assigns to the Company the license agreement governing such Exclusive Licensed Proprietary Rights. If the consent of the owner of the Exclusive Licensed Proprietary Rights is required in order to effectuate such assignment to the Company, Seller will use commercially reasonable efforts to obtain such assignment. Seller shall provide a copy of such license agreements to Buyer on the Closing Date.

(d) If Seller is nevertheless unable to obtain such consent to assign such license agreements for the Exclusive Licensed Proprietary Rights, and with respect to Proprietary Rights owned by a third party and licensed, as of the Closing Date, to the Seller or to any Seller Affiliates (i) that is used by the Company (or its Affiliates) as of the Closing Date or constitutes part of the Anticipated Business and (ii) that is used by Seller or one or more of the Seller Affiliates in the conduct of their businesses (collectively, the “**Non-Exclusive Licensed Proprietary Rights**”), Seller, on behalf of itself and the Seller Affiliates, hereby grants to the Company and its Affiliates a non-exclusive, sublicense to the fullest extent of Seller and Seller Affiliates’ right to grant sublicense rights under the applicable license agreement with the third party owner of such Proprietary Rights, to use, practice and exploit such Exclusive Licensed Proprietary Rights and such Non-Exclusive Licensed Proprietary Rights, including without limitation to develop, use, make, have made, sell, offer for sale, lease, import and export product and services. Seller shall deliver copies of any tangible embodiments of such Exclusive Licensed Proprietary Rights and the Non-Exclusive License Proprietary Rights (e.g., software and documentation) to the Company at the Closing. Seller represents and warrants to Buyer that Seller has the right to grant to the Company and its Affiliates the foregoing sublicenses on behalf of Seller and the Seller Affiliates.

(e) If Seller or the Seller Affiliates are not able to grant such sublicenses to the Company and its Affiliates, then Seller shall, prior to the Closing Date, disclose to Buyer the Non-Exclusive Licensed Proprietary Rights and the Exclusive Proprietary Rights that would have been subject to such sublicense. Any such disclosure shall not be deemed a waiver of or modification to any representation or warranty set forth in this Agreement.

(f) In the event that Seller shall have failed to take any of the actions contemplated by this Section prior to the Closing Date, Seller shall reimburse Buyer for any and all costs and expenses reasonably incurred by Buyer and its Affiliates (including the Company and its Affiliates), in connection with any such actions they may take after the Closing Date that are necessary to cure such failures.

(g) During the Pre-Closing Period, Seller shall provide to Buyer weekly updates regarding the status of the foregoing as well as documentation evidencing the accomplishment of the foregoing.

6.10 Payment of Indebtedness and Termination of Transactions by Related Persons. Seller will cause all indebtedness (i) owed to the Company by Seller or any Related Person of Seller to be paid in full prior to Closing, and (ii) owed to Seller (if any) or any Related Person by the Company to be paid in full prior to Closing. Seller will terminate any transactions it or any Related Person of Seller has with the Company or any Related Person thereof. The forgoing cancellation or forgiving of indebtedness shall occur without any deductions or charges for early repayment or early termination being triggered.

6.11 Non-Solicitation. Until such time, if any, as this Agreement is terminated pursuant to Section 9, Seller will not, and will cause the Company and each of its Representatives to not, directly or indirectly: (a) solicit or encourage inquiries or proposals with respect to, furnish any information relating to, participate in any negotiations or discussions concerning, or cooperate in any manner relating to any possible acquisition of the Company, their respective interests in the Company, or investments in the Company (whether by way of lending to the Company, purchase of assets or otherwise), or any portion of any of the Business or the assets of the Company (an “*Investment*”); (b) provide information with respect to the Company to any Person relating to, or otherwise facilitate or encourage any effort or attempt by any Person providing for, an Investment or possible Investment.

6.12 Best Efforts. During the Pre-Closing Period, Buyer and Seller will use their Best Efforts to cause the conditions in Sections 7 and 8 to be satisfied on or before ten (10) days prior to the Closing Date.

6.13 Post-Closing Financial Statements. Seller shall cooperate with, and shall take all steps reasonably requested by Buyer to facilitate completion of, Buyer’s and the Company’s preparation of (a) the Company’s audited consolidated balance sheets as of December 31, 2010 and December 31, 2011, the Company’s consolidated audited statements of income, stockholders’ equity and cash flows for the years ended December 31, 2010 and December 31, 2011, in accordance with U.S. Generally Accepted Accounting Principles, and the Company’s attainment of the report thereon of Deloitte AG, the Company’s independent registered public accounting firm, and an unaudited consolidated balance sheet of the Company as of June 30,

2012, and (b) the Company's unaudited consolidated statements of income, cash flows and stockholder's equity for the six months ended June 30, 2012 (the "**Post-Closing Financial Statements**"), provided that Buyer shall compensate Seller for any and all (i) external costs and expenses reasonably incurred in connection with such post-Closing cooperation efforts and (ii) internal costs, to the extent the assistance requested takes more than two working days.

6.14 Non-Compete; and Buyer and Seller Non-Solicit.

(a) For a period of three (3) years commencing on the Closing Date (the "**Restricted Period**"), Seller shall not, and shall not permit any of its Affiliates to, and Seller shall cause its Affiliates not to, directly or indirectly, (i) engage in or assist others in engaging in the Business; (ii) have an interest in any Person that engages directly or indirectly in the Business in any capacity, including as a partner, shareholder, member, employee, principal, agent, trustee or consultant; or (iii) intentionally interfere in any Material respect with the business relationships (whether formed prior to or after the date of this Agreement) between the Company and any of its customers or suppliers. Notwithstanding the foregoing, Seller may own, directly or indirectly, solely as an investment, securities of any Person traded on any national securities exchange if Seller is not a controlling Person of, or a member of a group which controls, such Person and does not, directly or indirectly, own 3% or more of any class of securities of such Person.

(b) During the Restricted Period, (i) Seller shall not, and shall not permit any of its Affiliates to, and Seller shall cause its Affiliates not to, without the prior written consent of Buyer, directly or indirectly, solicit, induce or attempt to solicit or induce for employment any employee or agent of Buyer or the Company to terminate his or her relationship with Buyer or the Company, and (ii) Buyer covenants and agrees that Buyer will not, and shall not permit any of its Affiliates to, and Buyer shall cause its Affiliates not to, without the prior written consent of Seller, directly or indirectly, solicit, induce or attempt to solicit or induce for employment any employee or agent of Seller or its Subsidiaries to terminate his or her relationship with Seller or its Subsidiaries; provided, however, that neither Party shall be prohibited from (A) employing or otherwise working with any such Person who contacts such Party on his or her own initiative and without direct or indirect solicitation and (B) conducting general solicitations for employees or independent contractors (which solicitations are not specifically targeted at any of the other Party's employees) through the use of media advertisements, professional search firms or otherwise.

(c) During the Restricted Period, (i) Seller shall not, and shall not permit any of its Affiliates to, and Seller shall cause its Affiliates not to, directly or indirectly, hire or solicit any employee of the Company or encourage any such employee to leave such employment or hire any such employee who has left such employment, except pursuant to a general solicitation which is not directed specifically to any such employees; and (ii) Buyer shall not, and shall not permit any of its Affiliates to, and Buyer shall cause its Affiliates not to, directly or indirectly, hire or solicit without the prior written consent of Seller, any employee of Seller or the Company or encourage any such employee to leave such employment or hire any such employee who has left such employment, except pursuant to a general solicitation which is not directed specifically to any such employees; provided, that nothing in this Section 6.14(c) shall prevent either Party or any of such Party's Affiliates from hiring (i) any employee whose employment has been

terminated by the other Party or (ii) after 180 days from the date of termination of employment, any employee whose employment has been terminated by such employee.

(d) During the Restricted Period, Seller shall not, and shall not permit any of its Affiliates to, directly or indirectly, solicit or entice, or attempt to solicit or entice, any clients or customers of the Company or potential clients or customers thereof for purposes of diverting their business or services from the Company.

(e) Each Party acknowledges that a Breach or threatened Breach of this Section 6.14 would give rise to irreparable harm to the other Party, for which monetary damages would not be an adequate remedy, and hereby agrees that in the event of a Breach or a threatened Breach by such Party of any such obligations, the other Party shall, in addition to any and all other rights and remedies that may be available to it in respect of such Breach, be entitled to equitable relief, including a temporary restraining order, an injunction, specific performance and any other relief that may be available from a court of competent jurisdiction (without any requirement to post bond).

(f) Each Party acknowledges that the restrictions contained in this Section 6.14 are reasonable and necessary to protect the legitimate interests of the other Party and constitute a material inducement to such other Party to enter into this Agreement and consummate the transactions contemplated by this Agreement. The covenants contained in this Section 6.14 and each provision hereof are severable and distinct covenants and provisions. The Parties intend the covenants set forth in this Section 6.14 to be enforced as written. However, in the event that any provision set forth in this Section 6.14 is held by a court of competent jurisdiction to be invalid or unenforceable to any extent, such court shall exercise its discretion in reforming such provision to the end that each Party and its Affiliates shall be subject to such restrictions and obligations as the court deems reasonable under the circumstances and enforceable by the other Party. In the event that a provision or term of this Section 6.14 is found to be void or unenforceable to any extent and such court does not exercise its discretion to reform such provision, it is the agreed upon intent of the Parties hereto that all remaining provisions or terms of this Agreement shall remain in full force and effect to the maximum extent permitted by Legal Requirements and that this Agreement shall be enforceable as if such void or unenforceable provision or term had never been a part hereof.

(g) For the avoidance of doubt, as used in this Section 6.14, "Affiliate" shall include officers and directors of Seller and its Affiliates, and Buyer and its Affiliates, respectively.

6.15 Termination of 401(k) Plan. Effective as of the end of the last full payroll period immediately preceding the Closing Date, Seller shall freeze all Code Section 401(k) arrangements (each a "**401(k) Plan**") for future contributions and participation. Effective as of the day immediately preceding the Closing Date, Seller and any ERISA Affiliate, shall have terminated any and all 401(k) Plans (unless Buyer shall have provided written notice to Seller at least five (5) Business Days prior to the Closing Date that such 401(k) Plans shall not be terminated). Unless Buyer provides such written notice to Seller, Seller shall have provided Buyer with evidence that such 401(k) Plans have been terminated (effective as of the day immediately preceding the Closing Date) pursuant to resolutions of the board of directors of

Seller. The form and substance of such resolutions shall be subject to review and approval of Buyer, which shall be timely and not unreasonably withheld. Seller also shall take such other actions in furtherance of terminating such 401(k) Plans as Buyer may reasonably require. In the event that termination of a 401(k) Plan would reasonably be anticipated to trigger liquidation charges, surrender charges or other fees then Seller shall take such actions as are necessary to reasonably estimate the amount of such charges and/or fees and provide such estimate in writing to Acquiror no later than fifteen (15) calendar days prior to the Closing Date.

6.16 Data Room. During the Pre-Closing Period, promptly after the Data Room Image Date, Seller shall deliver, or cause to be delivered, to each Buyer and to itself, (i) two electronic copies of the Data Room, each copy spread over two data carriers, as of the Data Room Image Date (each copy a “**Data Room Image**”), along with (ii) a certificate executed by an officer of Seller confirming that such Data Room Images are complete and accurate copies of all documents in the Data Room as of the Data Room Image Date and (iii) a certificate executed by an officer of Merrill Corporation, 17 Dominion Street, London EC2M 2EF, confirming that such Data Room Images, sealed with reference numbers listed in such certificate, solely but comprehensively contain an exact and complete copy of all documents in the Data Room as of the Data Room Image Dates. The Data Room Images shall be initialed by the respective Party’s legal advisors and shall be attached hereto as Schedule 6.16, together with the certificates pursuant to (ii) and (iii) above.

6.17 Employment Agreements. The employees of the Company listed in Schedule 6.17 to this Agreement shall have entered into employment agreements in a form satisfactory to Buyer (collectively, the “**Employment Agreements**”) prior to the date of this Agreement.

6.18 Cancellation of Share Certificates. Between the date of this Agreement and Closing, the Seller shall cause the Company to cancel and to correctly re-issue the share certificates listed in Schedule 6.18. Any costs and expenses related to the cancellation and re-issuing shall be paid by the Seller.

6.19 Updated Financials. Between the date of this Agreement and Closing, Seller shall cause the Company to continue to provide updated financial information to Buyer, as reasonably requested by Buyer, in format similar to what Seller has previously provided to the Buyer, including but not limited to, a monthly consolidated income statement and a schedule of key figures for the month of November, no later than December 14, 2012.

7. CONDITIONS PRECEDENT TO BE SATISFIED BY SELLER

The consummation of the Contemplated Transactions is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by Buyer, in writing, in whole or in part):

7.1 Accuracy of Representations. Except as otherwise Disclosed to Buyer, each of the representations and warranties of Seller set forth in this Agreement shall have been accurate in all material respects as of the date of this Agreement and shall be accurate in all material respects as of the Closing Date as if made on and as of the Closing, except that representations

and warranties which address matters only as of a particular date must have been accurate in all material respects only as of the particular date, and Seller shall have provided Buyer with a certificate from the chief executive officer and the chief financial officer of Seller and the Company to this effect. For purposes of the foregoing sentence, all “Material Adverse Effect” qualifiers and other materiality qualifications contained in such representations and warranties shall be disregarded for purposes of determining the accuracy of such representations and warranties pursuant to this Section 7.1. Each of the representations and warranties of Seller set forth in Sections 4.1 and 4.2 (a), (b)(i), (b)(ii), (b)(iii), (b)(vii), (c) and (d) shall have been accurate in all respects as of the date of this Agreement and shall be accurate in all respects as of the Closing Date as if made on and as of the Closing, and Seller shall have provided Buyer on the Closing Date with a certificate from the chief executive officer and the chief financial officer of Seller to this effect.

7.2 Performance of Covenants. Each of the covenants and obligations in this Agreement that Seller and the Company are required to comply with or perform at or prior to the Closing Date shall have been complied with or performed in all material respects and Seller shall have provided Buyer on the Closing Date with a certificate from the chief executive officer and chief financial officer on behalf of Seller to this effect.

7.3 No Material Adverse Effect. Since the date of this Agreement, no event, fact or circumstance constituting a Material Adverse Effect shall have occurred.

7.4 HSR Act and Antitrust Filings. The waiting period applicable, if any, to the consummation of the Contemplated Transactions under the HSR Act shall have expired or been terminated and, on the Closing Date, there shall not be in effect any voluntary agreement between Buyer and a Government Entity pursuant to which Buyer has agreed not to consummate the Contemplated Transactions for a period of time. All similar waiting periods, if any, under other applicable Antitrust Laws shall have expired or been terminated, and all Consents required under such Antitrust Laws shall have been obtained.

7.5 Consents. All Consents required to be obtained, made or given in connection with the Contemplated Transactions shall have been obtained, made or given and shall be in full force and effect.

7.6 No Restraints. No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the Contemplated Transactions shall have been issued by any court of competent jurisdiction or any other Government Entity and shall remain in effect, and there shall not be any Legal Requirement enacted, promulgated, adopted or deemed applicable to the Contemplated Transactions that makes consummation of the Contemplated Transactions illegal or otherwise prohibits or interferes with the consummation of the Contemplated Transactions.

7.7 No Litigation. There shall not be pending or threatened any Proceeding, nor any circumstances which may result in a Proceeding: (i) challenging or seeking to restrain or prohibit the consummation of the Contemplated Transactions or any of the other transactions contemplated by this Agreement; (ii) relating to the Contemplated Transactions and seeking to obtain from either Party or any of its Subsidiaries any damages that may be Material to Buyer;

(iii) which, if adversely determined, could have a Material Adverse Effect or equivalent effect on Buyer, other than those referred to in Schedule 7.7; or (iv) asserting that a Person (a) is the holder or the beneficial owner of, or has the right to acquire or to obtain beneficial ownership of, any stock of, or any other voting, equity, or ownership interest in the Company, or (b) is entitled to all or any portion of the Purchase Price payable for the Shares.

7.8 **No Prohibition.** Neither the consummation nor the performance of any of the Contemplated Transactions will, directly or indirectly, contravene, or conflict with, or result in a violation of, or cause Buyer or any Person Affiliated with Buyer to suffer any Material adverse consequence under, (a) any applicable Legal Requirement or Order, or (b) any Legal Requirement or Order that has been published, introduced, or otherwise proposed by or before any Government Entity.

7.9 **Management and Employee Bonuses.** The Company shall have paid all the Bonus Accruals, the LTIP Accruals and the Divestment Plan Accruals (each as defined below) accrued or earned through the Closing Date, including but not limited to (i) all profit sharing bonuses, (ii) bonuses pursuant to the Management by Objective plan (MBO) ((i) and (ii) together, the “**Bonus Accruals**”), (iii) the Company’s Long Term Incentive plan, for both Jackpot 1 and Jackpot 2 (the “**LTIP Accruals**”), and (iv) the Seller’s (or at the discretion of the Seller, the Company’s) divestment bonus plan (the “**Divestment Plan Accruals**”). The Company and/or the Seller shall have delivered evidence of payment of the Bonus Accruals, LTIP Accruals and Divestment Plan Accruals reasonably satisfactory to Buyer.

7.10 **Building Transfer and Leaseback.** The Building Transfer Condition has been met.

7.11 **Services Agreements.** Seller or its related Party, as appropriate, shall have entered into agreements relating to Hong Kong sublease and administrative services and Switzerland building services in forms satisfactory to Buyer.

7.12 **Due Diligence.** Completion of due diligence interviews with customers of the Company, the results of which are satisfactory to Buyer, in its sole discretion.

7.13 **Filing of Amended Tax Returns for Ismeca USA.** The Amended Tax Returns pursuant to Section 6.6(a) shall have been filed and any Tax reflected as owing, if any, on the Amended Tax Returns shall have been paid.

7.14 **Dividend.** The Dividend and Dividend Filings pursuant to Section 6.3(b) shall have been made, and the Company and Seller shall have delivered evidence reasonably satisfactory to Buyer thereof.

7.15 **Completion of initial intended acquisition in kind by the SPV and Tax Ruling.** In the case of an SPV Building Transfer, the SPV shall have (i) completed the registration in the commercial register of the amendments to the articles of incorporation as set forth in Section 6.7(c) above and (ii) obtained the Tax Ruling as set forth in Section 6.7(d), and Seller shall have delivered evidence reasonably satisfactory to Buyer thereof.

7.16 **Intercompany Matters.** Seller shall have provided evidence reasonably satisfactory to the Buyer that (a) any and all intercompany accounts between Ismeca Europe Semiconductor SA and its branches in Portugal, Hong Kong, South Korea and Taiwan have been settled in full, and (b) Ismeca Semiconductor Holding SA has adjusted and removed the CHF17 million loan from its consolidating financial statements.

8. **CONDITIONS PRECEDENT TO BE SATISFIED BY BUYER**

The consummation of the Contemplated Transactions is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by Seller, in whole or in part):

8.1 **Accuracy of Representations.** Except as otherwise Disclosed to Seller, each of the representations and warranties of Buyer set forth in this Agreement shall have been accurate in all material respects as of the date of this Agreement and shall be accurate in all material respects as of the Closing Date as if made on and as of the Closing, except that representations and warranties which address matters only as of a particular date must have been accurate in all material respects only as of the particular date and Buyer shall have provided Seller on the Closing Date with a certificate from the chief executive officer and the chief financial officer of Buyer to this effect. For purposes of the foregoing sentence, all “Material Adverse Effect” qualifiers and other materiality qualifications contained in such representations and warranties shall be disregarded for purposes of determining the accuracy of such representations and warranties pursuant to this Section 8.1.

8.2 **Performance of Covenants.** Each of the covenants and obligations in this Agreement that Buyer is required to comply with or perform at or prior to the Closing Date shall have been complied with or performed in all material respects and Buyer shall have provided Seller on the Closing Date with a certificate from the chief executive officer and chief financial officer of Buyer to this effect.

8.3 **HSR Act and Antitrust Filings.** The waiting period applicable to the consummation of the Contemplated Transactions under the HSR Act, if any, shall have expired or been terminated and, on the Closing Date, there shall not be in effect any voluntary agreement between Buyer and the Federal Trade Commission or the Department of Justice pursuant to which Buyer has agreed not to consummate the Contemplated Transactions for a period of time. Any similar waiting period under any applicable foreign Antitrust Laws, if any, set forth on Schedule 8.3 shall have expired or been terminated, and any Consent required under any applicable foreign Antitrust Laws set forth on Schedule 8.3 shall have been obtained.

8.4 **No Restraints.** No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the Contemplated Transactions shall have been issued by any court of competent jurisdiction or any other Government Entity and shall remain in effect, and there shall not be any Legal Requirement enacted, promulgated, adopted or deemed applicable to the Contemplated Transactions that makes consummation of the

Contemplated Transactions illegal or otherwise prohibits or interferes with the consummation of the Contemplated Transactions.

9. TERMINATION

9.1 **Termination Events.** This Agreement may, by notice given prior to or at the Closing, be terminated:

(a) by either Buyer or Seller if a Material Breach of any provision of this Agreement has been committed by the other Party and the rights and obligations arising out of such Breach have not been waived;

(b) (i) (A) by Buyer if any of the conditions in Section 7 has not been satisfied as of the Closing Date or if satisfaction of such a condition is or becomes impossible (other than through the failure of Buyer to comply with its obligations under this Agreement) and Buyer has not waived such condition on or before the Closing Date; or (B) by Seller, if any of the conditions in Section 8 has not been satisfied as of the Closing Date or if satisfaction of such a condition is or becomes impossible (other than through the failure of Seller to comply with their obligations under this Agreement) and Seller has not waived such condition on or before the Closing Date;

(ii) by mutual consent of Buyer and Seller; or

(iii) by either Buyer or Seller if the Closing has not occurred (other than through the failure of any Party seeking to terminate this Agreement to comply fully with its obligations under this Agreement) on or before January 31, 2013 (unless the failure to consummate the Contemplated Transactions is attributable to a failure on the part of the Party seeking to terminate this Agreement to perform any material obligation required to be performed by such Party at or prior to the Closing Date);

(iv) by either Buyer or Seller if a court of competent jurisdiction or other Government Entity shall have issued a final and nonappealable order, decree or ruling, or shall have taken any other action, having the effect of permanently restraining, enjoining or otherwise prohibiting the Contemplated Transactions;

(c) by Buyer (i) if any of Seller's representations and warranties shall have been inaccurate as of the date of this Agreement, such that the condition set forth in Section 7.1 would not be satisfied, or (ii) if (A) any of Seller's covenants contained in this Agreement shall have been Breached, such that the condition set forth in Section 7.2 would not be satisfied; and (B) such Breach has not been cured by Seller within thirty (30) days after its receipt of written notice thereof and remains uncured at the time notice of termination is given;

(d) by Seller (i) if any of Buyer's representations and warranties shall have been inaccurate as of the date of this Agreement, such that the condition set forth in Section 8.1 would not be satisfied, or (ii) if (A) any of Buyer's covenants contained in this Agreement shall have been Breached such that the condition set forth in Section 8.2 would not be satisfied; and

(B) such Breach has not been cured by Buyer within thirty (30) days after its receipt of written notice thereof and remains uncured at the time notice of termination is given; or

(e) by Buyer if, since the date of this Agreement, there shall have occurred any Material Adverse Effect.

9.2 Effect of Termination. In the event of the termination of this Agreement as provided in Section 9.1, this Agreement shall be of no further force or effect; provided, however, that (i) Section 6.4, Section 9.2 and Section 11 shall survive the termination of this Agreement and shall remain in full force and effect, (ii) the termination of this Agreement shall not relieve any Party from any liability for fraud, willful misconduct, any Material inaccuracy in or intentional Breach of any representation or any Material Breach of any warranty, covenant or other provision contained in this Agreement, and (iii) the Parties shall comply with Buyer and Seller non-solicit obligations set forth in Section 6.14(b) and Section 6.14(c); provided that the Restricted Period shall be the two (2) year period commencing on the date of termination.

10. INDEMNIFICATION; REMEDIES

10.1 Survival; Disclosure to Buyer.

(a) All representations, warranties, covenants, and obligations in this Agreement, the Disclosure Schedule, the certificates delivered pursuant to Section 2.3(a), and any other certificate or document delivered pursuant to this Agreement will survive the Closing.

(b) The representations and warranties given by Seller in Section 4 shall be excluded or limited by those matters and information that are Disclosed to Buyer. Other than with respect to Special Indemnity Matters, Seller shall not be liable under this Section 10 for any Damages based upon or arising out of any inaccuracy in or Breach of any representations or warranties of Seller contained in this Agreement if the material substance of such inaccuracy or Breach has been Disclosed to Buyer.

10.2 Indemnification and Payment of Damages by Seller. In addition to the indemnification rights provided for in Sections 6.3(c), 6.6(a), 6.6(d), 6.7(a) and 6.7(d), Seller will indemnify and hold harmless Buyer, the Company, its Subsidiaries, and their respective Representatives, shareholders, controlling persons, and Affiliates (collectively, the “**Indemnified Buyer Persons**”) for, and will pay to the Indemnified Buyer Persons the amount of, any loss, liability, claim, damage, expense (including costs of investigation and defense and reasonable attorneys’ fees) or diminution of value, and any related penalties and Interest, whether or not involving a third-party claim (collectively, “**Damages**”), incurred by any of them and arising, directly or indirectly, from or in connection with:

(a) any Breach of any representation or warranty made by Seller in this Agreement, the Disclosure Schedule, or any other certificate or document delivered by Seller or the Company pursuant to this Agreement;

(b) any Breach of any representation or warranty made by Seller in this Agreement as if such representation or warranty were made on and as of the Closing Date;

(c) any Breach by Seller of any covenant or obligation of Seller or the Company in this Agreement;

(d) any defective product shipped or manufactured by, or any defective services provided by, the Company prior to the Closing Date;

(e) any liability related to the Building and the Building Transfer;

(f) any liability related to Transaction Expenses;

(g) any liability related to the Bonus Accruals, LTIP Accruals and Divestment Plan Accruals;

(h) any liability related to the matters described in Section 4.1(h), irrespective of any information Disclosed to Buyer; or

(i) any claim by any Person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by any such Person with Seller or the Company (or any Person acting on their behalf) in connection with any of the Contemplated Transactions.

The remedies provided in this Section 10.2 will not be exclusive of or limit any other remedies that may be available to Buyer or the other Indemnified Buyer Persons.

10.3 Indemnification and Payment of Damages by Buyer. Buyer will indemnify and hold harmless Seller, its Subsidiaries (excluding for the avoidance of doubt the Company after Closing), and their respective Representatives, shareholders, controlling persons, and Affiliates (collectively, the "**Indemnified Seller Persons**") for, and will pay to the Indemnified Seller Persons the amount of any Damages incurred by any of them and arising, directly or indirectly, from or in connection with:

(a) any Breach of any representation or warranty made by Buyer in this Agreement or any other certificate or document delivered by Buyer pursuant to this Agreement;

(b) any Breach of any representation or warranty made by Buyer in this Agreement as if such representation or warranty were made on and as of the Closing Date;

(c) any Breach by Buyer of any covenant or obligation of Buyer in this Agreement; or

The remedies provided in this Section 10.3 will not be exclusive of or limit any other remedies that may be available to Buyer or the other Indemnified Persons

10.4 Time Limitations.

(a) Unless expressly stated otherwise, all claims of Buyer for a Breach under Section 4 shall be time-barred (*verjähren*) as from 30 June 2014, unless Buyer has initiated any

of the actions set forth in article 135 CO prior to the expiration of such statute of limitations period.

(b) Notwithstanding the provision in Section 10.4(a) above, any and all Claims of Buyer with regard to a Breach of Seller's representations and warranties under (i) Section 4.2 (b)(iv) to (b)(vii) (Authority; No Conflict) and Section 4.18 (Environmental Matters) shall become time-barred five (5) years and (ii) Section 4.1 (Organization, Good Standing, Capital Structure and Shares), Section 4.2 (a), (b)(i), (b)(ii), (b)(iii), (c) and (d) (Authority; No Conflict) shall become time-barred ten (10) years after Closing Date. Any and all Claims of Buyer with regard to a Breach of Seller's representations and warranties under Section 4.10 (Taxes) shall become time barred six (6) months after the final and non-appealable assessment of the relevant Tax.

(c) Any and all claims of Seller with regard to a Breach of Buyer's representations and warranties and Buyer's covenants shall become time-barred (*verjähren*) as from the date that is twelve (12) months after the Closing Date.

10.5 Limitations on Amount.

(a) Seller shall only be liable under this Agreement (for indemnification or otherwise) with respect to any claim pursuant to clauses (a) and (b) of Section 10.2 (a "***Seller Warranty Claim***"), if (i) any single individual claim exceeds US\$ 75,000 (the "***Individual Claim Threshold***") and (ii) one or several claims exceeding the Individual Claim Threshold exceeds or exceed in the aggregate US\$ 500,000 (the "***Basket Threshold***"), whereupon Sellers' liability to Buyer shall be equal to the full amount of such Seller Warranty Claim without deduction of the Individual Claim Threshold, but deducting the Basket Threshold amount. In the event of a series of claims based on the same facts, such series of claims shall be treated as a single claim and the aggregate cumulative liability resulting from such series of claims shall be used to determine whether the Individual Claim Threshold has been exceeded. In no event shall the aggregate maximum liability of Seller in respect of Seller Warranty Claims (for indemnification for Damages) exceed US\$ 12,000,000 (the "***Indemnification Cap***"). Notwithstanding the foregoing, (a) the limitations on amount set forth in this Section 10.5(a) will not apply to (i) any Breach of any of the representations and warranties under Sections 4.1 (Organization, Good Standing, Capital Structure and Shares) and 4.2 (a), (b)(i), (c) and (d) (Authority; No Conflict), and (ii) any claim with respect to fraud (*arglistige Täuschung*, article 203 CO), willful Breach or intentional misrepresentation, and (b) the Indemnification Cap will not apply to any Breach of any of the representations and warranties under Subsections (b)(ii), (b)(iii), (b)(vii) of Section 4.2 (Authority; No Conflict).

(b) Buyer shall only be liable under this Agreement (for indemnification or otherwise) with respect to any claim pursuant to Section 10.3 (a "***Buyer Warranty Claim***") if (i) any single individual claim exceeds the Individual Claim Threshold and (ii) one or several claims exceeding the Individual Claim Threshold exceeds or exceed the Basket Threshold, whereupon Buyer's liability to Seller shall be equal to the full amount of such Buyer Warranty Claim without deduction of the Individual Claim Threshold, but deducting the Basket Threshold amount. In the event of a series of claims based on the same facts, such series of claims shall be treated as a single claim and the aggregate cumulative liability resulting from such series of

claims shall be used to determine whether the Individual Claim Threshold has been exceeded. In no event shall the aggregate maximum liability of Buyer in respect of Buyer Warranty Claims (for indemnification for Damages) exceed the Indemnification Cap. Notwithstanding the foregoing, the limitations on amount set forth in this Section 10.5(b) will not apply to any claim with respect to fraud, willful Breach or intentional misrepresentation.

(c) Seller's liability shall be excluded or reduced, as the case may be, if, and to the extent:

(i) Buyer or, following the Closing Date, the Company shall have failed to use its commercially reasonable efforts to mitigate the loss or damage as required under Swiss law;

(ii) Buyer or the Company have recovered or, by using commercially reasonable efforts expected to have been taken by a conscientious business person (*sorgfältiger Kaufmann*), could have recovered from any third party (including but not limited to an insurer), unless such recovery would or could have a negative impact on an ongoing business relationship or otherwise harm Buyer or the Company, the costs, expenses or damages in respect of any matter to which a claim asserted relates, provided, however, that any costs or expenses actually incurred or that would have been expected to be incurred in connection with such recovery efforts are deemed Damages for purposes of the indemnification provisions under this Agreement;

(iii) a specific accrual (Rückstellung), provision or reserve has been made for the matter giving rise to the corresponding notice of Breach in the Financial Statements as per December 31, 2011;

(iv) such liability is resulting from or attributable to an act, omission, transaction, change of past discretionary practice (except if this discretionary practice could be considered violating any laws), regulations etc., of Buyer after the Closing Date or any of the Company after the Closing Date; or

(v) any Tax payable by the Company is reduced in the respective tax period as a result of a matter giving rise to a claim for misrepresentation or Breach of warranty.

(d) Buyer's liability shall be excluded or reduced, as the case may be, if, and to the extent:

(i) Seller shall have failed to use its commercially reasonable efforts to mitigate the loss or damage as required under Swiss law; or

(ii) Seller shall have recovered from any third party, including but not limited to an insurer, the costs, expenses or damages in respect of any matter to which a claim asserted relates.

(e) It is understood and agreed that, if Buyer or Seller is entitled to a claim under any Section of this Agreement and under any other Section in respect of the same subject

matter, Buyer or Seller, as applicable, may choose to claim under either or both provisions, but payments under any Sections shall pro tanto satisfy and discharge any claims made in respect of the same subject matter (avoidance of double claims double Damages, double recovery or double indemnities).

10.6 Procedure for Indemnification--Third Party Claims.

(a) Promptly after receipt by an indemnified party under Section 10.2 of notice of the commencement of any Proceeding against it (a “**Third Party Claim Proceeding**”), 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 Third Party Claim, but the failure to notify the indemnifying party 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 materially prejudiced by the indemnifying party’s failure to give such prompt notice.

(b) If any Third Party Claim Proceeding is brought against an indemnified party and it gives notice to the indemnifying party of the commencement of such Third Party Claim Proceeding, the indemnifying party will be entitled to participate in such Third Party Claim Proceeding and, to the extent that it wishes, assume the defense of such Third Party Claim Proceeding with counsel satisfactory to the indemnified party, unless (i) the claim involves Taxes, (ii) the indemnifying party is also a party to such Third Party Claim Proceeding and the indemnified party determines in good faith that joint representation would be inappropriate, (iii) the indemnifying party fails to provide reasonable assurance to the indemnified party of its financial capacity to defend such Third Party Claim Proceeding and provide indemnification with respect to such Third Party Claim Proceeding, (iv) if the indemnifying party is Seller, (a) the Third Party Claim Proceeding is asserted directly by or on behalf of a supplier or customer of the Company, or (b) the Third Party Claim Proceeding seeks an injunction or other equitable relief against the indemnified party, or (v) the Indemnification Cap has been reached. If the indemnifying party assumes the defense of a Third Party Claim Proceeding, (i) it will be conclusively established for purposes of this Agreement that the claims made in that Third Party Claim Proceeding are within the scope of and subject to indemnification; (ii) 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 (iii) the indemnified party will have no liability with respect to any compromise or settlement of such claims effected without its consent. In the event that the indemnified party has assumed the defense of a Third Party Claim Proceeding, the indemnifying party will not be bound by any compromise or settlement effected by the indemnified party without the indemnifying party’s consent (which may not be unreasonably withheld).

(c) Notwithstanding the foregoing, if an indemnified party determines in good faith that there is a reasonable probability that a Third Party Claim Proceeding may adversely affect it or its Affiliates 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 Third Party Claim Proceeding, but the indemnifying party will not be bound by any determination of a Third Party Claim Proceeding so defended or any compromise or settlement effected without its consent (which may not be unreasonably withheld).

10.7 **Procedure for Indemnification--Other Claims.** Any claim for indemnification for any matter not involving a third-party claim (a “**Direct Claim**”) shall be asserted by the indemnified party giving the indemnifying party written notice thereof. The indemnifying party shall have thirty (30) days after its receipt of such notice to respond to the claim in question. If the indemnifying party does not respond within such thirty (30) day period, the claim shall be deemed rejected and the indemnified party shall be free to pursue such remedies as may be available to the indemnified party on the terms and subject to the provisions of this Agreement or which may be available under law.

10.8 **Disclaimer Regarding Breaches.** Buyer does not have any obligation to examine the Company following the Closing for any defects or Breaches of any of the representations and warranties provided by Seller under Section 4. Buyer shall deliver a notice to Seller of any Breach, specifying the Breached provisions of this Agreement, setting forth the reasons why Buyer thinks such provisions have been Breached and including reasonable documentary evidence, if any, in possession of the CEO of the Buyer within sixty (60) calendar days following the identification by the CEO of the Buyer of any such Breach of such a representation and warranty provided by Seller under Section 4 of this Agreement. Claims for Breaches of any of the representations and warranties provided by Seller under Section 4, which have not been notified in accordance with this Section 10.8, shall be precluded (*verwirkt*). This Section 10.8 shall be in lieu of and entirely replace article 201 CO.

10.9 **Offset.** Seller may withhold and set off against any amount otherwise due Buyer any amount as to which Buyer is obligated to pay Seller pursuant to this Agreement. Buyer may withhold and set off against any amount otherwise due Seller any amount other than the Purchase Price as to which Seller is obligated to pay Buyer pursuant to this Agreement.

11. GENERAL PROVISIONS

11.1 **Expenses.** Except as otherwise expressly provided in this Agreement, each party to this Agreement will bear its respective expenses incurred in connection with the preparation, execution, and performance of this Agreement and the Contemplated Transactions, including all fees and expenses of agents, representatives, counsel, and accountants. Notwithstanding Section 6.5(g), Buyer shall bear the notarial fees for notarization of this Agreement, if any. In the event of termination of this Agreement, the obligation of each Party to pay its own expenses will be subject to any rights of such Party arising from a Breach of this Agreement by the other Party.

11.2 **Confidential Information.** Unless mutually agreed in writing, Buyer and Seller each shall hold, in strict confidence, unless compelled to disclose by judicial or administrative process, arbitration, or, in the opinion of legal counsel, by other Legal Requirements, all confidential information concerning any other Party hereto furnished by such other Party or its representatives pursuant to this Agreement (except to the extent that such information can be

shown to have been (i) available to such Party on a non-confidential basis prior to its disclosure by such other Party, (ii) in the public domain through no fault of such Party or (iii) later lawfully acquired from other sources by such Party), and no Party shall release or disclose such information to any other Person, except to its auditors, attorneys, financial advisors, bankers, and other consultants and advisors who shall be advised of the provisions of this Section 11.2. Notwithstanding the foregoing, Buyer and Seller may disclose confidential information to (i) their respective officers, directors, Employees, agents and Representatives who have a need to know such information in furtherance of the transactions contemplated by this Agreement and the Ancillary Agreements, and (ii) any third party that executes a confidentiality agreement to keep all such information confidential to the same extent as provided in this Section 11.2. Each Party shall be deemed to have satisfied its obligation to hold confidential information concerning or supplied by any other Party if it exercises the same care as it takes to preserve confidentiality for its own similar information. Buyer and Seller hereby expressly agree that the Purchase Price shall be considered confidential information as contemplated by this Section 11.2.

11.3 Notices. All notices, Consents, waivers and other communications required or permitted by this Agreement shall be in writing and shall be deemed given to a Party when (a) delivered to the appropriate address by hand or by nationally recognized overnight courier service (costs prepaid); or (b) sent by facsimile or e-mail with confirmation of transmission by the transmitting equipment confirmed with a copy delivered as provided in clause (a), in each case to the following addresses, facsimile numbers or e-mail addresses and marked to the attention of the person (by name or title) designated below (or to such other address, facsimile number, e-mail address or person as a Party may designate by notice to the other Parties):

If to Buyer, addressed to:

Cohu, Inc.
12367 Crosthwaite Circle
Poway, California 92064
Attn: John H. Allen
Fax: 001 (858) 848-8185

With a copy to:

DLA Piper LLP (US)
4365 Executive Drive, Suite 1100
San Diego, California 92121
Attn: Matthew Leivo
Fax: 001 (858) 638-5162

If to Seller, addressed to:

Schweiter Technologies AG
Neugasse 10
8810 Horgen
Attn: Dr. Heinz Baumgartner, CEO
Fax: 0041 (44) 718 34 51

With a copy to:

Schweiter Technologies AG
Neugasse 10
8810 Horgen
Attn: Martin Kloeti, CFO
Fax: 0041 (44) 718 34 51

11.4 Further Assurances. 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 documents referred to in this Agreement.

11.5 Waiver. The rights and remedies of the Parties are cumulative and not alternative. Neither the failure nor any delay by any Party in exercising any right, power, or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by applicable Legal Requirements, (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.

11.6 Entire Agreement and Modification. This Agreement supersedes all prior agreements between the Parties with respect to its subject matter (including the Letter of Intent between Buyer and Seller dated March 30, 2012 and constitutes (along with the documents referred to in this Agreement) a complete and exclusive statement of the terms of the agreement between the Parties with respect to its subject matter. This Agreement may not be amended except by a written agreement executed by each of the Parties.

11.7 Disclosure Schedule.

(a) The representations and warranties contained in Section 4 of this Agreement are, in addition to the other forms of disclosures further set forth in the definition “Disclosed to Buyer” above, subject to and qualified by (i) the exceptions and disclosures set forth in the Part of the Disclosure Schedule corresponding to the particular subsection of Section 4 in which such representation and warranty appears; (ii) any exceptions or disclosures explicitly cross-referenced in such Part of the Disclosure Schedule by reference to another Part of the Disclosure Schedule; (iii) any exception or disclosure set forth in any other Part of the Disclosure Schedule to the extent it is reasonably apparent that such exception or disclosure contradicts and thereby qualifies such representation or warranty; and (iv) any information, facts or matters that have been Disclosed to Buyer.

(b) The information set forth in the Disclosure Schedule is disclosed solely for the purposes of this Agreement, and no information set forth therein shall be deemed to be an admission by any party hereto to any Third Party of any matter whatsoever, including of any violation of Legal Requirements or Breach of any Contract.

(c) The Disclosure Schedule and the information and disclosures contained therein are intended only to qualify and limit the representations, warranties and covenants of Seller contained in this Agreement.

11.8 Assignments, Successors, and No Third-Party Rights. Neither Party may assign any of its rights under this Agreement without the prior consent of the other Party (such consent not to be unreasonably withheld). Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the Parties. Nothing expressed or referred to in this Agreement will be construed to give any Person other than the Parties to this Agreement any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement. This Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the Parties to this Agreement and their successors and assigns.

11.9 Release of Claims. In consideration of the Purchase Price and the other covenants and agreements set forth herein, except for rights arising out of this Agreement or in connection with the performance hereunder (whether under a contract or tort theory), effective as of the Closing, Seller hereby fully and forever releases and discharges Buyer and the Company (and their Representatives and Related Persons) from any and all claims, accusations, demands, liabilities, obligations, responsibilities, suits, actions and causes of action, whether liquidated or unliquidated, fixed or contingent, known or unknown, or otherwise, in each case, arising out of, relating to, or otherwise connected with all prior relationships with or dealings with, between or among any or all of the Parties hereto, and any of their business or other relationships arising out of or related to the same. Seller acknowledges that it may discover facts or Legal Requirements different from or in addition to the facts or Legal Requirements that they know or believe to be true with respect to the claims released in this Section 11.9 and agrees, nonetheless, that this Section 11.9 and the release contained herein shall be and remain effective in all respects notwithstanding such different or additional facts or the discovery of them. Seller further agrees that, to the fullest extent permitted by Legal Requirements, it will not prosecute, nor allow to be prosecuted on his behalf, in any administrative agency, whether state, cantonal or federal, or in any court, whether state, cantonal or federal, any claim or demand of any type related to the matters released in this Section 11.9.

11.10 Specific Performance; Remedies. Each Party hereto acknowledges that the other Parties will be irreparably harmed and that there will be no adequate remedy at Legal Requirements for any violation by any Party of any of the covenants or agreements contained in this Agreement. Subject to Sections 11.15 and 11.16, it is accordingly agreed that, in addition to any remedies that may be available upon the Breach of any such covenants or agreements, each Party hereto shall have the right to seek injunctive relief to restrain a Breach or Threatened Breach of, or otherwise to obtain specific performance of, the other Parties' covenants and

agreements contained in this Agreement, in addition to any other remedy to which it may be entitled, at law or in equity.

11.11 Severability. If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

11.12 Section Headings, Construction. The headings of Sections in this Agreement are provided for convenience only and will not affect its construction or interpretation. All references to “Section” or “Sections” refer to the corresponding Section or Sections of this Agreement. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the word “including” does not limit the preceding words or terms.

11.13 Counterparts; Exchanges by Electronic Delivery. This Agreement may be executed in multiple counterparts and any Party hereto may execute any such counterpart, each of which when executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute one and the same instrument. The exchange of an executed signature page of the Agreement (in counterparts or otherwise) by facsimile or by electronic delivery in .pdf format shall be sufficient to bind the Parties to the terms and provisions of this Agreement, and shall be followed-up by delivery of one (1) original of such executed signature page, together with the full Agreement (including Schedules and Exhibits attached thereto), with original initials of the respective Party’s legal advisors on each page thereof, to each Party as provided in Section 11.3 (a).

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

11.15 Governing Law. This Agreement will be governed by the laws of Switzerland without regard to conflicts of laws principles. The UN Convention on Contracts for the International Sale of Goods signed in Vienna on April 11, 1990 is hereby explicitly excluded for all purposes of the Agreement.

11.16 Jurisdiction; Service of Process. Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement against any of the Parties shall be submitted to the exclusive jurisdiction of the Commercial Tribunal (“*Handelsgericht*”) of the Canton of Zurich and each of the Parties consents to the exclusive jurisdiction of such tribunal (and of the appropriate appellate tribunal) in any such action or proceeding and waives any objection to venue laid therein.

[Remainder of page intentionally left blank]

Seller:

Schweiter Technologies AG

Place: Zurich, Switzerland

Dated as of December 9, 2012

Buyer:

Delta Design Luxembourg S.à.r.l.

Place: Poway, California

Dated as of December 9, 2012

By: /s/ Beat Siegrist
(Beat Siegrist, Chairman of the
Board of Directors)

By: /s/ John Allen
(John Allen, Manager)

By: /s/ Heinz O. Baumgartner
(Dr. Heinz O. Baumgartner, CEO)

[Signature Page to Share Purchase and Transfer Agreement]

List of Schedules and Exhibits to the SPA

Schedule/Exhibit/Annex	Document Title
-	Disclosure Schedule
Schedule 1.1 *	Knowledge of Buyer
Schedule 1.2 *	Knowledge of the Company
Schedule 2.3(a)(vii) *	Resignation Letters of the Resigning Directors
Schedule 3.2(a) *	Estimate of Net Cash and Net Debt as at the Closing Date
Schedule 3.4 *	Allocation of Purchase Price
Exhibit 6.7 (a) *	Sale and purchase agreement for the Building Transfer
Exhibit 6.7 (b) **	Building Lease
Schedule 6.16 *	- Electronic copies of the Data Room - Certification of Seller - Certificate of Merrill Corporation
Schedule 6.17 *	List of Employees of the Company which shall have entered into employment agreements
Schedule 6.18 *	List of share certificates to be cancelled and re-issued prior to Closing
Schedule 7.7 *	List of Proceedings (i) challenging or seeking to restrain or prohibit the consummation of the Contemplated Transactions or any of the other transactions contemplated by this Agreement; (ii) relating to the Contemplated Transactions and seeking to obtain from either Party or any of its Subsidiaries any damages that may be Material to Buyer; (iii) which, if adversely determined, could have a Material Adverse Effect or equivalent effect on Buyer.
Schedule 8.3 *	List of foreign Antitrust Laws providing for waiting periods or required Consents for the consummation of the Contemplated Transactions

* Omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy will be furnished supplementally to the Securities and Exchange Commission upon request.

** Schedule 6.7 (b) included as Exhibit 10.10 to Cohu, Inc. Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2013.

LEASE

between

Nerwal SA
c/o Ismeca Europe Semiconductor SA
Rue de l’Helvétie 283
2301 La Chaux-de-Fonds

as Landlord

and

Ismeca Europe Semiconductor SA
Rue de l’Helvétie 283
P.O. Box
2301 La Chaux-de-Fonds

as Tenant

The Parties have entered into the following Lease Agreement within the meaning of Article 253 et seq. of the Swiss code of Obligations (CO):

1. Preamble

Following the sale of various real estates from Tenant to the Landlord in particular plot no. 3514, plot no. 3515 and plot no. 3516, Tenant now wishes to lease and Landlord wishes to let certain properties and buildings as identified herein.

2. Premises

2.1 Premises & description of lease

The Landlord lets to the Tenant the following areas in its building on Rue de l’Helvétie 283, 2301 La Chaux-de-Fonds, which are in a condition fit for their purpose (all as identified on Appendix A):

- **Building “A”, including Building A0 and A1, with a total of app. 1138 m2 located on plot number 3514 and 4249 of the Cadastre des Eplatures in 2300 La Chaux-de-Fonds**
- **Building “B”, app. 1511 m2 of B1, located mainly on plot number 3514 of the Cadastre des Eplatures in 2300 La Chaux-de-Fonds**
- **Building “C”, app. 270 m2 of C1, located mainly on plot number 3514 of the Cadastre des Eplatures in 2300 La Chaux-de-Fonds**
- **Building “E”, app. 83 m2 of E0, located on plot number 3515 of the Cadastre des Eplatures in 2300 La Chaux-de-Fonds**
- **Building “F”, app. 142 m2, located mainly on plot number 3515 of the Cadastre des Eplatures in 2300 La Chaux-de-Fonds**

2.2 Parking and surrounding land

The Tenant may use exclusively 80 parking spaces, currently indicated on the ground at the locations, as identified in the plan on Appendix B.

Tenant is also entitled to the exclusive use of pic-nic area and bicycle-hub as identified on Appendix B.

2.3 Use of the Premises

The Tenant will use the Premises as a production/assembly plant with appurtenant office spaces and ancillary uses. Landlord inspected the Premises in full and agrees with its current use, installations and state.

2.4 Works carried out by Tenant

The Tenant has the right to execute, at his expense, all works required to make the building more suitable for his activity.

Any works involving the building's structure shall be submitted to the Landlord for prior approval and possible financing. The Landlord hereby approves all other fitouts and fixtures of the Tenant in advance. The Tenant shall inform the Landlord reasonably in advance of any works regarding the fixtures and fitouts of the Premises. Such work shall belong to the Tenant. As per the end of the lease, Tenant will reinstate the Premises to the condition they were at the commencement of the lease, unless otherwise agreed in writing between the Landlord and the Tenant.

3. Lease Term / Termination

The lease shall commence on 14 December 2012 and may be terminated by either party giving the other party 12 months prior notice. The earliest date of effect of termination is 31 December 2022.

Without notice, the lease will automatically be extended for additional terms of two years and may be terminated by either party as per the end of any such term giving the other party 12 months prior notice.

Notice of termination shall be given by either party by registered mail and in accordance with the above requirements as to notice period and date of effect. The landlord shall use a form approved by the canton.

4. Rent / Payment / Value-Added Tax

4.1 Rent

The rental fee for the Premises (see clause 2.1 and 2.2) as identified in Clause 2 amounts to CHF 350'000.00 per annum, (exclusive of VAT) and is composed as follows:

Building A	1'138m2	à CHF 100.00 /m2	CHF 113'800.00
Building B	1'511 m2	à CHF 100.00 /m2	CHF 151'100.00
Building C	270 m2	à CHF 100.00 /m2	CHF 27'000.00
Building E	83 m2	à CHF 100.00 /m2	CHF 8'300.00
Building F	142 m2	à CHF 100.00 /m2	CHF 14'200.00
80 parking spaces		à CHF 445.00	CHF 35'600.00
Total			CHF 350'000.00

Should the measured above-mentioned m2 not reflect the actual m2 of the rented Premises at the commencement of the Lease, such difference shall not result in any rental fee adjustment.

This rental fee takes due account of the actual state of the Premises.

The rental fee shall be indexed. Any adjustment in the rental fee shall be based on the differences of the “Landesindex der Konsumentenpreise des Bundesamtes für Statistik” (LIK). Such adjustment can be made as per 1 January of each year (first time on 1 January 2014) based on the LIK per October of the previous year. The rental fee adjustment shall be noticed by the Landlord with the form approved by the Canton (“amtliches Formular”) not later than on 15 November of the previous year. The basis for such rental fee adjustment shall be the LIK at the commencement date of this Lease Agreement.

4.2 Payment of rent

The rental fee specified in Article 4.1 shall be payable monthly in advance on the first day of each month.

4.3 Value-added tax

The Premises are subject to value-added tax. Value-added tax at the statutory rate shall be payable in addition to the rent. The Landlord undertakes to issue VAT receipts so as to enable the Tenant to reclaim input VAT. Any further restriction on the Tenant’s entitlement to deduct input tax shall not affect the rent.

The Tenant confirms that it is subject to VAT and that it is registered for VAT with the Federal tax administration. The Tenant shall inform the Landlord in the event that it should lose its VAT status.

5. Charges

All charges (heating, electricity, hot water costs, operating costs as listed in Appendix C, except the building insurance and the building liability insurance costs) arising from the use of the Premises are not included in the rent. The charges shall be borne by the Tenant additionally and shall be invoiced by the Landlord separately.

Tenant shall pay charges of CHF 9'000.- (plus VAT, if applicable) per month on account, payable monthly in advance on the first day of each month. Landlord shall yearly deliver to the Tenant the accounting of the charges based on the effective costs. The on account payment may be adjusted at the same time as the rental fee based on the effective calculation of the effective costs of the previous year.

For the avoidance of doubt, the Parties clarify the following positions:

- a) The Tenant shall be solely responsible for all cost of installation, repair and replacement of the air conditioning system (item 4a of Appendix C) and for cost with respect to “Analyses and follow up Energho” (item 14c in Appendix C).
- b) The Tenant shall be solely responsible for all cost of installation, repair and replacement of the 60Hz on-site power generator (items 7b and 7c of Appendix C)
- c) Landlord owns the air system (items 10a and 10b of Appendix C) and the vacuum system (item 15 in Appendix C) and will charge Tenant for the running costs as well as the costs occurring with respect to the inspection, maintenance and repair of the items, in each case proportionally to the Tenants use of the respective system in relation to the use of the respective system of any other tenants of the premises.

6. Handover of Premises and Notice of Defects

6.1 Handover

The Premises shall be handed over to the Tenant in their current state, which is fit for the intended purpose, cleaned and complete with all contents and fittings. The state of the Premises shall be recorded in writing by the Parties in a statement of condition of premises. This statement shall be drawn up at the date of the handover of the Premises

6.2 Condition at handover of Premises

At handover the Premises are in a state which is fit for the agreed purpose of the tenancy.

7. Use and Maintenance of Premise

7.1 Use

The Premises shall be used only for the contractually agreed purpose. Any change in use shall require the Landlord's written authorization.

7.2 Insurance

The Landlord shall insure the property against building damage in accordance with such cantonal legislation as may be applicable (insurance obligation). In addition, the Landlord shall maintain liability insurance covering third party claims in relation to the property (building liability).

7.3 Sublease

The Tenant has the right to sublease all or part of the Premises to any entity which is controlling, controlled by or under common control with the Tenant without further approval of the Landlord. If a sublease is made to a third party, the Tenant shall obtain the Landlord's prior written consent thereto, which will not be unreasonably withheld.

7.4 Maintenance

As far as legally allowed, Tenant shall be responsible for all maintenance and small repairs of the Premises (with the exception of the shell of the building), but only up to an amount of 1% of the net annual rent per year per case and in sum (all cases together) not more than 5% of the net annual rent

per year. The Landlord shall be responsible for all other refurbishment of the Premises in order to guarantee the contractually agreed use of the Premises. The allocation of the maintenance between the Landlord and the Tenant has been considered by determining the rental fee.

8. Return of Premises

The Tenant shall surrender the Premises in such condition as would result from the use of the Premises in accordance with the terms of the Lease.

The surrender of the Premises complete with all contents and fittings and entirely vacated shall take place not later than the date on which the Lease shall end (by 12.00 noon), or if that date should fall on a Saturday, Sunday or public holiday, by 12.00 noon on the next following working day in the locality in question. The Premises shall be surrendered in the same condition as they were in when the Tenant took possession at the commencement of the Lease, subject only to such wear and tear as results from the use of the Premises in accordance with the terms of the Lease. Works involving the building's structure, as well as fixtures and fitouts agreed in written as permanent, with the Landlord, shall belong to the Landlord without any compensation.

The Tenant shall be required, by the surrender date, to thoroughly clean the Premises together with all fittings and contents, to restore the Premises to the original condition and state at the begin of the lease and to repair any damage occasioned to the Premises for which the Tenant is responsible and that is not the consequence of ordinary wear and tear.

Any defects or damage ascertained at the end of the tenancy for which the Tenant is liable shall be recorded in a statement of condition of premises or notified in writing to the Tenant within 30 days after the end of the Lease. The Tenant shall also be liable for defects which were not ascertainable upon the surrender of the Premises, provided that these are notified in writing within 30 days after the end of the Lease. The time limits governing the prosecution and expiration of claims in respect of such defects are as laid down in the Swiss code of Obligations.

9. Early Termination of Lease

9.1 Bankruptcy

The Landlord shall be entitled to terminate the Lease summarily if the Tenant is declared bankrupt or seeks protection from its creditors and the Tenant or its insolvency administrator fails to provide security for future rental liabilities within a time limit of 20 days to be notified in writing.

9.2 Termination for serious cause

Nothing herein shall affect the Parties' right of early termination of the Lease for serious cause in accordance with Article 266g of the Code of Obligations or by mutual agreement.

10. Special Provisions

10.1 Effective date

This Lease shall enter into force upon registration of the Landlord as owner of the Premises in the land registry (Effective date).*

10.2 Keys

Locks and Keys to all doors belong to the premises. The Tenant is already in possession of the necessary number of keys which are listed in Appendix D. Additional keys must be ordered from the Landlord and paid for by the Tenant. Reference is made to the receipts signed by the Parties.

10.3 Land register

Tenant is granted the right, at his own expense, to enter this Lease in the land register (Article 261 b CO).

10.4 Appendices / Amendments

All Appendices shall form integrated part to this Lease. Amendments to this Lease shall not be valid unless in writing.

10.5 Governing Law/Jurisdiction

This Lease shall be governed exclusively by the laws of Switzerland. All disputes arising out of or in connection with this Lease shall be subject to the jurisdiction of the courts of the place where the Premises are situated.

10.6 Counterparts

This Lease Agreement is drawn up in two counterparts, one for each of the Parties hereto.

The Landlord

Nerwal SA

acting by:

/s/ Heinz Baumgartner
Heinz Baumgartner

/s/ Martin Klóti
Martin Klóti

Appendices:

- Appendix A - Overview
- Appendix A - Building A+B+C
- Appendix A - Building E
- Appendix A - Building F
- Appendix B - Parking and surrounding
- Appendix C - Operating Costs
- Appendix D - Keys

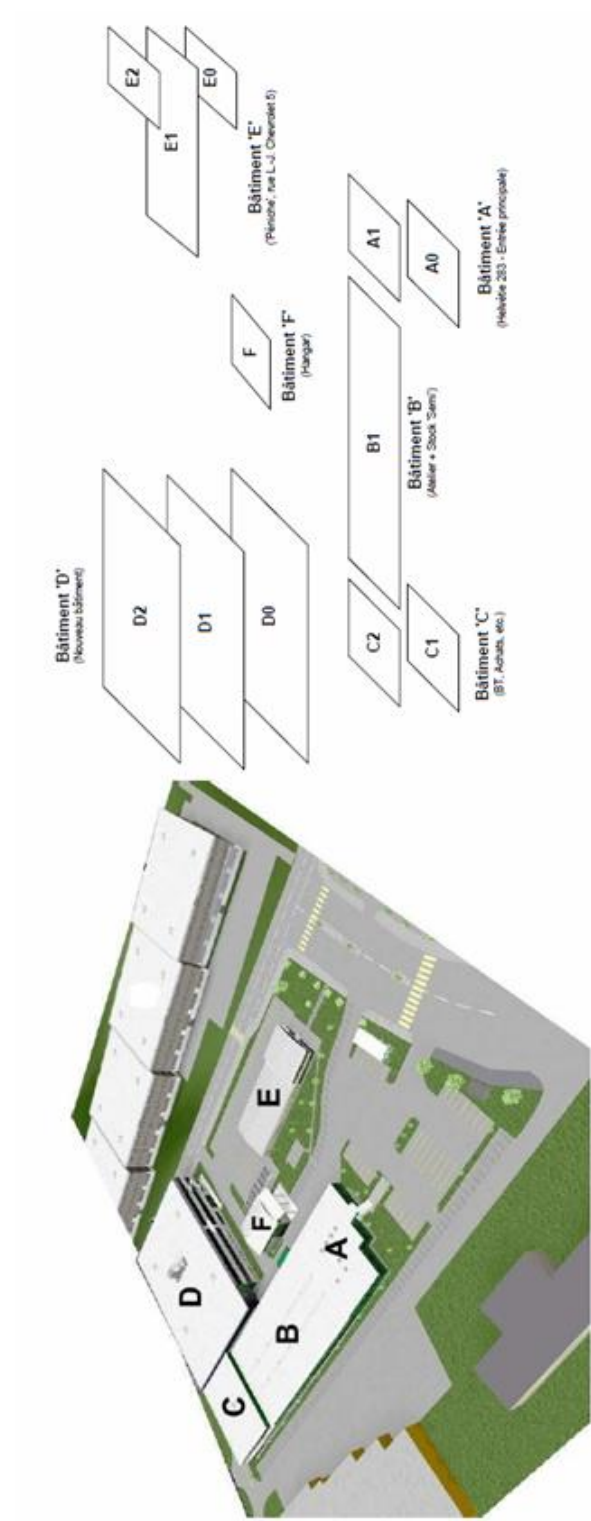
The Tenant

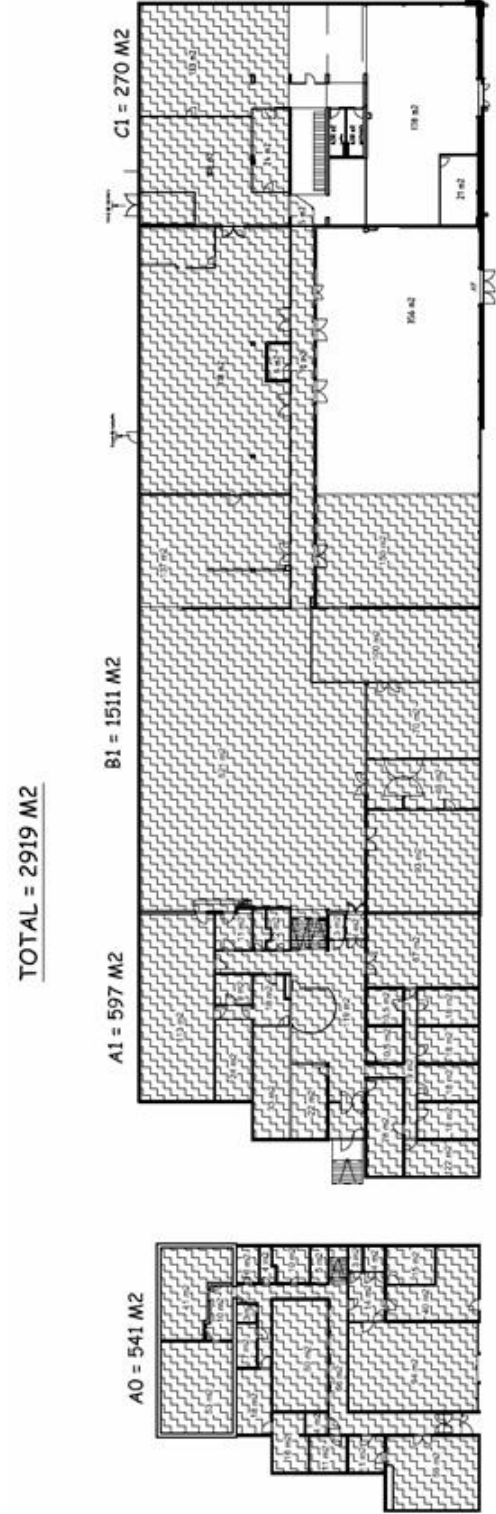
Ismecca Europe Semiconductor SA

acting by:

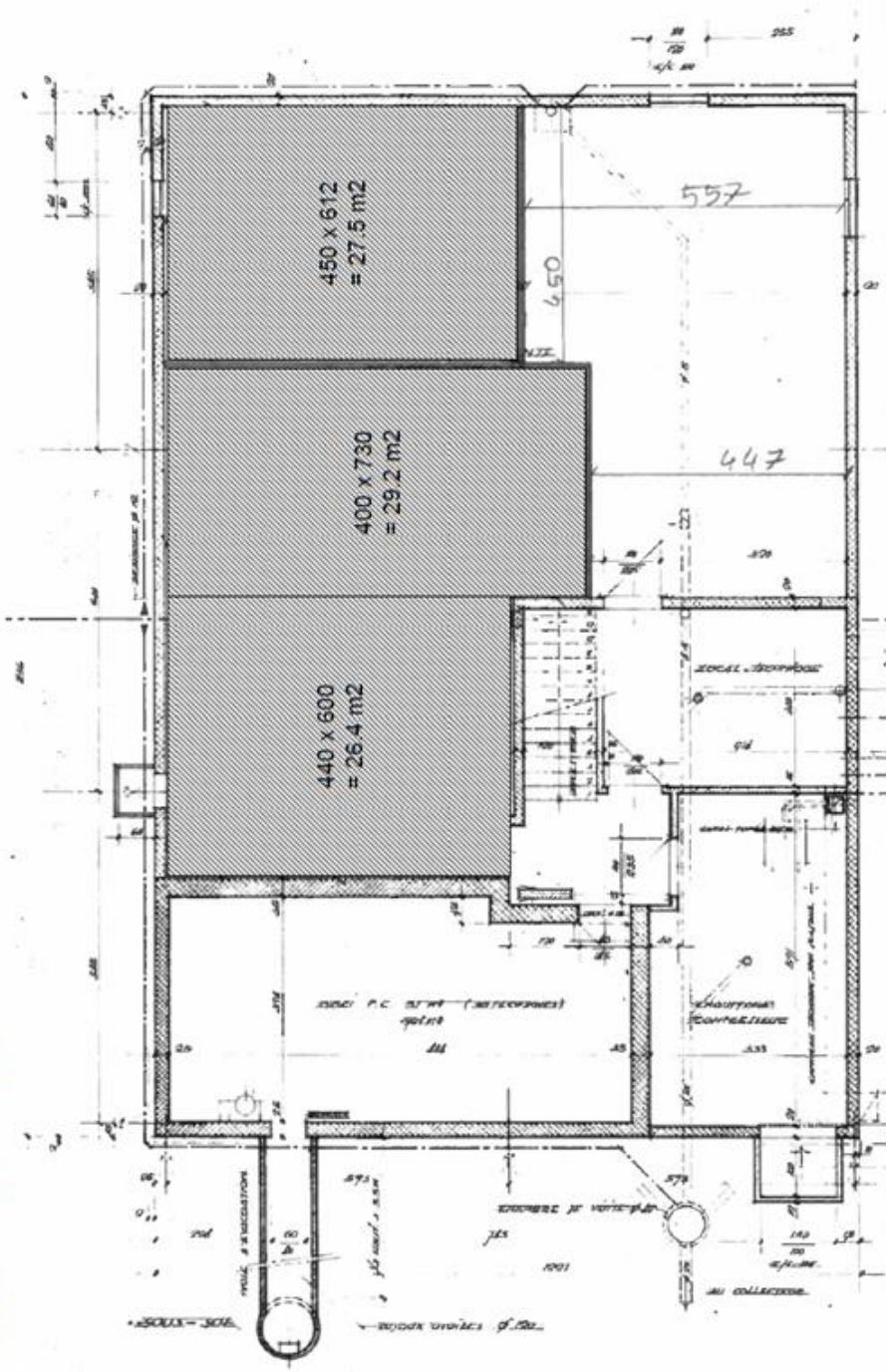
/s/ Lorenzo Giarre
Lorenzo Giarre

/s/ Florian Wenger
Florian Wenger

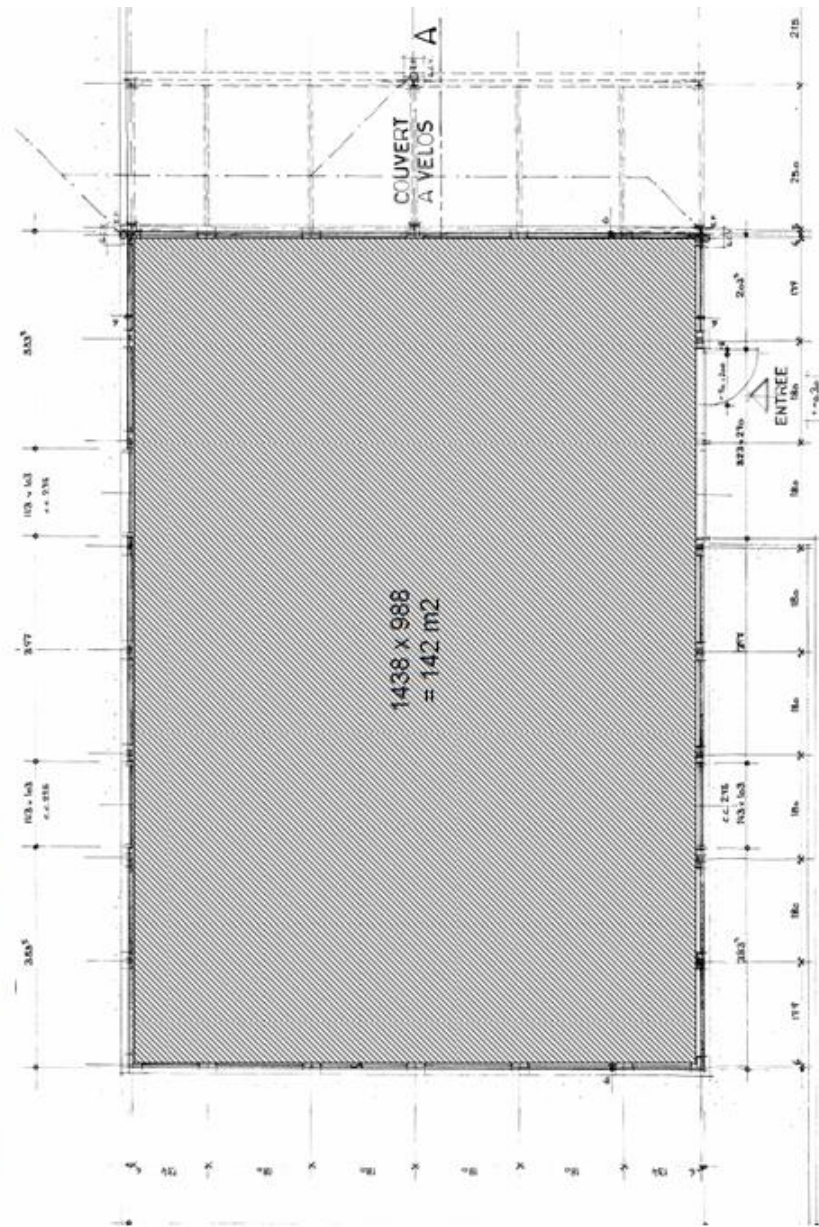




E0 Surface Archive ismeca
Surface totale = 83 m2



Surface totale = 142 m²

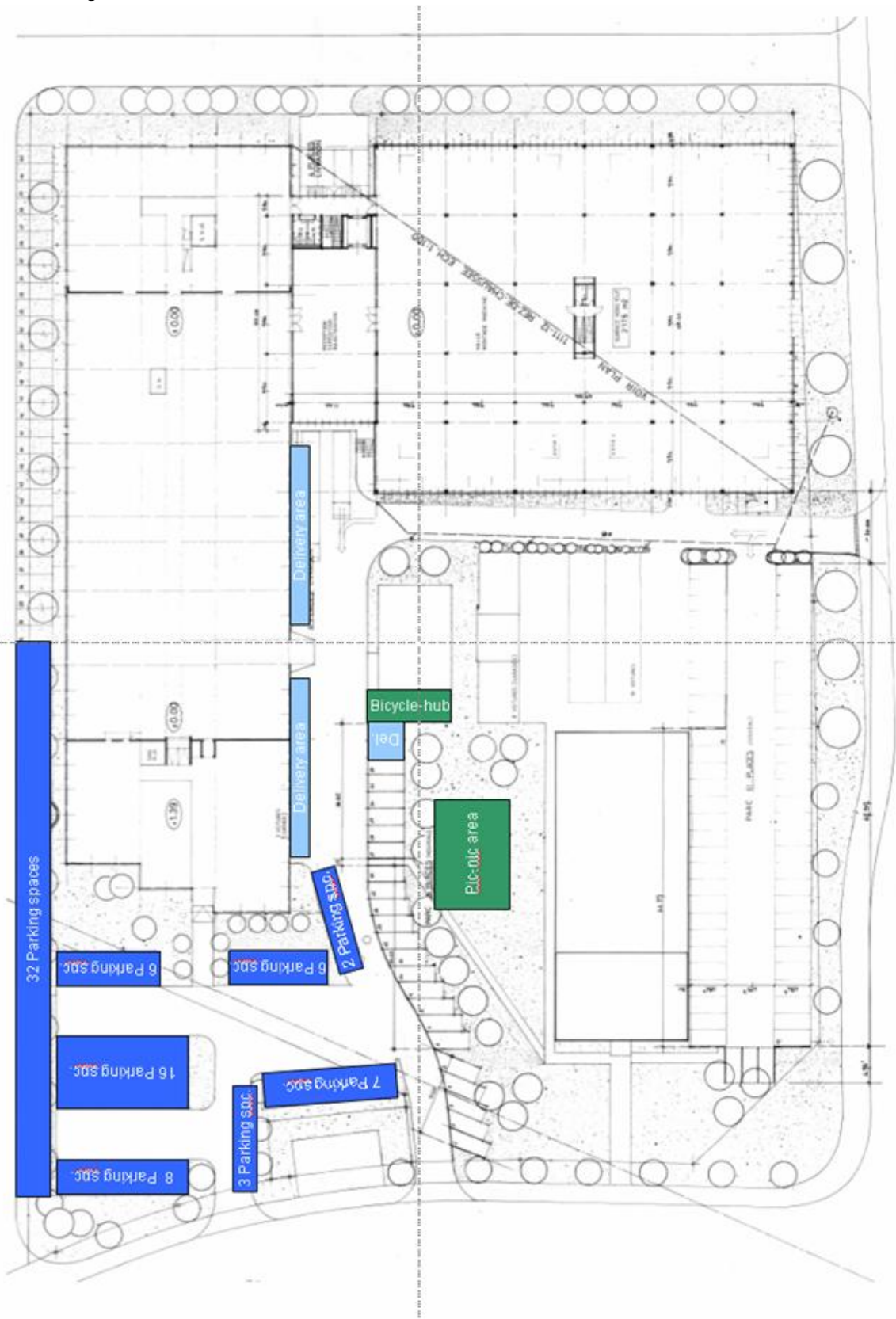


Parking and Surrounding

Ismecca parking spaces
= $32 + 8 + 16 + 6 + 3 + 7 + 2 = 80$

 Ismecca delivery area

Other common area



Appendix C – Operating costs:

<u>Nr</u>	<u>Installation</u>	<u>Type</u>	<u>Costs at charge of Landlord</u>	<u>Costs at charge of Tenant</u>
1a	Heating	Inspection and maintenance of burner, pumps and valves (contracts or service support)		X
1b	Heating	Tank inspection and maintenance		X
1c	Heating	Compliance to applicable standards	X	
1d	Heating	Chimney sweeping		X
1e	Heating	Repair work of failure not due to lack of inspection, maintenance, supply or cleaning	X	
2a	Ventilation	Inspection and maintenance of ventilation main system (mono-bloc) and replacement of filters.	n.a.	n.a.
2b	Ventilation	Compliance to applicable standards	n.a.	n.a.
2c	Ventilation	Inspection and maintenance of ventilation and replacement of filters	n.a.	n.a.
3a	Sanitation	Maintenance of toilets, sink, pipe, plumbing fixtures, filters, washers		X
3b	Sanitation	Cleaning, toilet paper, towels, etc.		X
3c	Sanitation	Unblocking of pipes		X
3d	Sanitation	Repair work of failure not due to lack of inspection, maintenance, supply or cleaning	X	
4a	Air conditioning	All cost for installation, operating, inspection, maintenance, repair et replacement, etc.		X
5a	Lifts	Inspection and maintenance of lifts, elevators, loading platform		X
5b	Lifts	Compliance to applicable standards	X	
5c	Lifts	Repair work of failure not due to lack of inspection, maintenance, supply or cleaning	X	
6a	Fire alarm	Inspection and maintenance of the fire alarm central and fire detectors		X
6b	Fire alarm	Modification of equipment on tenant request		X
6c	Fire alarm	Operation of fire alarm system, including communication cost		X
7a	Electricity	All cost of installation and operation of 50Hz electrical power system		X
7b	Electricity	Occasional use of 60Hz electrical power system		X
7c	Electricity	Cost linked to the 60Hz electrical power system equipment in the tenant premises		X
8a	Doors and Keys	Inspection and maintenance of the sliding and rolling doors		X
8b	Doors and Keys	Inspection and maintenance of external doors and coded locks		X
8c	Doors and Keys	Cost of locks replacement and/or keys in case of loss		X
8d	Doors and Keys	Security patrol		X
8e	Doors and Keys	Security intervention in the tenant premises		X
9a	Emergency lighting	Inspection and maintenance		X
9b	Emergency lighting	Modification of equipment on tenant request		X
9c	Emergency lighting	Compliance to applicable standards	X	
10a	Compressed Air	Inspection and maintenance of compressors, valves, tanks and filters		X
10b	Compressed Air	Compliance to applicable standards (interior)		X
11a	Roller blinds (outside)	Replacement of the blind ropes due to normal wear (1x every 10 years)	X	
11b	Roller blinds (outside)	Repair of electrical and mechanical parts not caused by an improper use	X	
11c	Roller blinds (outside)	Replacement of the blind ropes, electrical and mechanical parts due to improper use		X
12a	Exterior	Maintenance green areas		X
12b	Exterior	Snow removal on road access and parking		X
12c	Exterior	Snow removal on pedestrian access and emergency exits		X
12d	Exterior	Snow removal on roof		X
12e	Exterior	Cleaning out of rainwater draining system		X
12f	Exterior	Cleaning Parking		X
13a	Exterior	Cleaning of premises and surrounding area		X
13b	Exterior	Cleaning of windows (Interior and Exterior)		X
14a	Public Costs	Insurance premiums ECAP (fire and natural hazards)	X	
14b	Public Costs	Property tax	X	
14c	Public Costs	Analyses and follow up of Energho program (building energy efficiency)		X
15	Vacuum System (developed by Ismeca)	All maintenance and repair costs		X

SUBSIDIARIES OF COHU, INC.

<u>LEGAL ENTITY NAME</u>	<u>PLACE OF INCORPORATION</u>
Delta Design, Inc. (1)	Delaware
FRL, Incorporated	California
Broadcast Microwave Services, Inc. (2)	California
Delta Design (Littleton), Inc.	Delaware
Cohu Foreign Sales Ltd.	Barbados
(1) Delta Design, Inc. owns the following subsidiaries:	
Delta Design Luxembourg S.à r.l	Luxembourg
Delta Design Singapore PTE LTD	Singapore
Delta Design Philippines LLC	Delaware
Cohu S.A.	Costa Rica
Delta Design Europe GmbH	Germany
Rasco GmbH	Germany
Rosenheim Automation Systems Corporation	California
Ismeca Semiconductor Holding SA (3)	Switzerland
(2) Broadcast Microwave Services, Inc. owns the following subsidiary:	
Broadcast Microwave Services Europe GmbH	Germany
(3) Ismeca Semiconductor Holding SA owns the following subsidiaries:	
Ismeca Europe Semiconductor SA	Switzerland
CDF Holding USA	Delaware
Ismeca USA, Inc.	California
Ismeca Malaysia Sdn	Malaysia
Ismeca Semiconductor (Suzhou) Co Ltd	China

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-62803, 333-27663, 333-40610, 333-66466, 333-97449, 333-117554, 333-132605, 333-142579, 333-160760 and 333-177453) pertaining to the Cohu, Inc. 1996 and 1998 Stock Option Plans, 1996 Outside Directors Stock Option Plan, 1997 Employee Stock Purchase Plan and 2005 Equity Incentive Plan of Cohu, Inc. of our reports dated February 28, 2013, with respect to the consolidated financial statements and schedule of Cohu, Inc., and the effectiveness of internal control over financial reporting of Cohu, Inc., included in this Annual Report (Form 10-K) for the year ended December 29, 2012, filed with the Securities and Exchange Commission.

/s/ ERNST & YOUNG LLP

San Diego, California
February 28, 2013

CERTIFICATION PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, James A. Donahue, certify that:

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

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

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

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

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 28, 2013

/s/ James A. Donahue

James A. Donahue,
President and Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey D. Jones, certify that:

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

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

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

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

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 28, 2013

/s/ Jeffrey D. Jones

Jeffrey D. Jones,

Vice President Finance and Chief Financial Officer

**CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the accompanying Annual Report of Cohu, Inc. (the “Company”) on Form 10-K for the fiscal year ended December 29, 2012 (the “Report”), I, James A. Donahue, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 28, 2013

/s/ James A. Donahue

James A. Donahue,
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the accompanying Annual Report of Cohu, Inc. (the “Company”) on Form 10-K for the fiscal year ended December 29, 2012 (the “Report”), I, Jeffrey D. Jones, Vice President Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 28, 2013

/s/ Jeffrey D. Jones

Jeffrey D. Jones,
Vice President Finance and Chief Financial Officer