

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D. C. 20549**  
**FORM 10-Q**

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

**For the quarterly period ended June 30, 2001**

**OR**

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

**Commission file number 1-4298**

**COHU, INC.**

\_\_\_\_\_  
(Exact name of registrant as specified in its charter)

**Delaware**

\_\_\_\_\_  
(State or other jurisdiction of  
Incorporation or Organization)

**95-1934119**

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

**12367 Crosthwaite Circle, Poway, California**

**92064-6817**

\_\_\_\_\_  
(Address of principal executive office)

\_\_\_\_\_  
(Zip Code)

\_\_\_\_\_  
Registrant's telephone number, including area code

**858-848-8100**

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

Yes  No

As of June 30, 2001, the Registrant had 20,458,889 shares of its \$1.00 par value common stock outstanding.

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

	<b>June 30, 2001</b>	<b>December 31, 2000</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 83,421	\$ 79,119
Short-term investments	17,379	13,468
Accounts receivable, less allowance for doubtful accounts of \$1,515 in 2001 and \$2,227 in 2000	20,392	37,164
Inventories:		
Raw materials and purchased parts	19,635	22,120
Work in process	12,416	17,133
Finished goods	6,548	6,786
	38,599	46,039
Deferred income taxes	13,781	13,781
Other current assets	5,299	3,145
	178,871	192,716
Property, plant and equipment, at cost:		
Land and land improvements	8,701	2,501
Buildings and building improvements	32,239	12,795
Machinery and equipment	22,690	22,138
Land and building to be acquired	—	21,288
	63,630	58,722
Less accumulated depreciation and amortization	22,501	20,605
	41,129	38,117
Goodwill, net of accumulated amortization of \$3,127 in 2001 and \$2,549 in 2000	—	578
Other assets	157	84
	\$220,157	\$231,495
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,171	\$ 7,604
Accrued compensation and benefits	5,543	8,955
Accrued warranty	3,273	4,916
Customer advances	1,925	834
Deferred profit	2,669	5,960
Other accrued liabilities	6,784	3,864

Total current liabilities	25,365	32,133
Accrued retiree medical benefits	1,047	1,058
Deferred income taxes	464	464
Commitments		
Stockholders' equity:		
Preferred stock	—	—
Common stock	20,459	20,313
Paid in excess of par	10,466	8,957
Retained earnings	162,356	168,570
Total stockholders' equity	193,281	197,840
	<u>\$220,157</u>	<u>\$231,495</u>

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Net sales	\$29,281	(restated) \$86,761	\$72,999	(restated) \$159,493
Cost and expenses:				
Cost of sales	21,686	51,700	53,919	95,902
Research and development	6,637	8,313	15,067	15,068
Selling, general and administrative	6,706	8,125	13,220	15,264
	<u>35,029</u>	<u>68,138</u>	<u>82,206</u>	<u>126,234</u>
Income (loss) from operations	(5,748)	18,623	(9,207)	33,259
Interest income	1,117	1,309	2,434	2,602
Income (loss) before income taxes	(4,631)	19,932	(6,773)	35,861
Provision (credit) for income taxes	(1,800)	7,004	(2,600)	12,480
Income (loss) before cumulative effect of change in accounting principle	(2,831)	12,928	(4,173)	23,381
Cumulative effect of change in accounting principle, net of \$1,700 tax benefit	—	—	—	(3,299)
Net income (loss)	<u>\$ (2,831)</u>	<u>\$12,928</u>	<u>\$ (4,173)</u>	<u>\$ 20,082</u>
Basic earnings (loss) per share:				
Income (loss) before cumulative effect of change in accounting principle	\$ (.14)	\$ .64	\$ (.20)	\$ 1.16
Cumulative effect of change in accounting principle	—	—	—	(.16)
Net income (loss)	<u>\$ (.14)</u>	<u>\$ .64</u>	<u>\$ (.20)</u>	<u>\$ 1.00</u>
Weighted average shares used in basic per share calculation	<u>20,417</u>	<u>20,209</u>	<u>20,379</u>	<u>20,130</u>
Diluted earnings (loss) per share:				
Income (loss) before cumulative effect of change in accounting principle	\$ (.14)	\$ .61	\$ (.20)	\$ 1.10
Cumulative effect of change in accounting principle	—	—	—	(.16)
Net income (loss)	<u>\$ (.14)</u>	<u>\$ .61</u>	<u>\$ (.20)</u>	<u>\$ .94</u>
Weighted average shares used in diluted per share calculation	<u>20,417</u>	<u>21,248</u>	<u>20,379</u>	<u>21,277</u>

See accompanying notes.

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

	Six Months Ended June 30,	
	2001	2000
		(restated)
Cash flows from operating activities:		
Net income (loss)	\$ (4,173)	\$20,082
Adjustments to reconcile net income (loss) to net cash provided from operating activities:		
Depreciation and amortization	2,554	1,620
Decrease in accrued retiree medical benefits	(11)	(12)
Changes in current assets and liabilities:		
Accounts receivable	16,772	(3,943)
Inventories	7,440	366
Other current assets	(2,154)	(531)
Accounts payable	(2,433)	(2,419)
Income taxes payable	—	(2,074)
Customer advances	1,091	(6,994)
Deferred profit	(3,291)	2,955
Accrued compensation, warranty and other liabilities	(2,135)	(669)
	13,660	8,381
Net cash provided from operating activities		
Cash flows from investing activities:		
Purchases of short-term investments	(9,122)	(5,977)
Maturities of short-term investments	5,211	16,235
Purchases of property, plant, equipment and other assets	(5,061)	(1,428)
	(8,972)	8,830
Net cash provided from (used for) investing activities		
Cash flows from financing activities:		
Issuance of stock, net	1,655	2,844
Cash dividends	(2,041)	(2,020)
	(386)	824
Net cash provided from (used for) financing activities		
Net increase in cash and cash equivalents	4,302	18,035
Cash and cash equivalents at beginning of period	79,119	55,954
Cash and cash equivalents at end of period	\$83,421	\$73,989
Supplemental disclosure of cash flow information:		
Cash paid (refunded) during the period for:		
Income taxes	\$ (156)	\$14,374

See accompanying notes.

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

**1. Basis of Presentation**

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

Cohu adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("Statement No. 133"), on January 1, 2001. Statement No. 133 requires, among other things, that all derivatives be recognized in the balance sheet at fair value and special

accounting for hedging activities that meet certain criteria. The Company generally does not hold derivative instruments or engage in hedging activities and as a result the adoption of Statement No. 133 has had no material effect on the Company's financial condition or results of operations.

## 2. Change in Accounting for Revenue Recognition

In the fourth quarter of 2000 the Company changed its method of revenue recognition for certain semiconductor equipment sales to comply with SEC Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* ("SAB 101"). SAB 101 sets forth guidelines on the timing of revenue recognition based on factors such as passage of title, installation, payment and customer acceptance. The cumulative effect adjustment of the change in accounting on prior years through December 31, 1999 was a reduction to income of \$3,299,000 (after credit for income taxes of \$1,700,000) and is included in income for the six months ended June 30, 2000. The change was effective January 1, 2000 and amounts previously reported for the three and six months ended June 30, 2000 have been restated to reflect the application of SAB 101. The effect of the change on the second quarter of 2000 was to increase net sales \$38,000 to \$86,761,000 and decrease income before cumulative effect of change in accounting principle \$186,000 (\$.01 per diluted share) to \$12,928,000 (\$.61 per diluted share).

## 3. Earnings (Loss) Per Share

Earnings (loss) per share are computed in accordance with Financial Accounting Standards Board ("FASB") Statement No. 128, *Earnings per Share*. Basic earnings (loss) per share are computed using the weighted average number of common shares outstanding during each period. Diluted earnings per share include the dilutive effect of common shares potentially issuable upon the exercise of stock options. For purposes of computing diluted earnings per share, stock options with exercise prices that exceed the average fair market value of the Company's common stock for the period are excluded. For the three and six months ended June 30, 2000, options to purchase approximately 50,000 and 25,000 shares of common stock at average prices of \$38.81 and \$38.81, respectively, were excluded from the computation. The impact of stock options is excluded for loss periods as they would be antidilutive. The following table reconciles the denominators used in computing basic and diluted earnings (loss) per share:

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
	(in thousands)		(in thousands)	
Weighted average common shares outstanding	20,417	20,209	20,379	20,130
Effect of dilutive stock options	—	1,039	—	1,147
	20,417	21,248	20,379	21,277

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

## 4. Segment and Related Information

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

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
	(in thousands)		(in thousands)	
Net sales:				
Semiconductor equipment	\$21,800	\$76,793	\$57,024	\$139,854
Television cameras	5,048	6,925	10,917	13,417
	26,848	83,718	67,941	153,271
Net sales for reportable segments	26,848	83,718	67,941	153,271
All other	2,433	3,043	5,058	6,222
	29,281	86,761	72,999	159,493
Total consolidated net sales	29,281	86,761	72,999	159,493
Operating profit (loss):				
Semiconductor equipment	\$ (4,655)	\$18,487	\$ (8,001)	\$ 33,125
Television cameras	152	699	563	1,105
	(4,503)	19,186	(7,438)	34,230
Operating profit (loss) for reportable segments	(4,503)	19,186	(7,438)	34,230
All other	(254)	(4)	(328)	103
	(4,757)	19,182	(7,766)	34,333
Total consolidated operating profit (loss)	(4,757)	19,182	(7,766)	34,333

Other unallocated amounts:				
Corporate expenses	(485)	(487)	(863)	(930)
Interest income	1,117	1,309	2,434	2,602
Goodwill amortization/write-down	(506)	(72)	(578)	(144)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income (loss) before income taxes	\$ (4,631)	\$19,932	\$ (6,773)	\$ 35,861
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

	June 30, 2001	December 31, 2000
	(in thousands)	
Total assets by segment:		
Semiconductor equipment	\$ 89,344	\$110,612
Television cameras	9,705	10,951
	<u>          </u>	<u>          </u>
Total assets for reportable segments	99,049	121,563
All other operating segments	6,731	6,477
Corporate	114,377	103,455
	<u>          </u>	<u>          </u>
Total consolidated assets	\$220,157	\$231,495
	<u>          </u>	<u>          </u>

## 5. Real Estate Transactions

On April 16, 2001 the Company sold its land and buildings in San Diego, California to TC Kearny Villa, L.P., an unrelated party, for \$12.5 million, excluding commissions and other related expenses. The \$12.5 million purchase price included a cash payment of \$3.1 million and a \$9.4 million, 8% non-recourse note, secured by a deed of trust on the property, due in six months. The note also provides for a 180-day extension option. The Company entered into a three-month leaseback of the property with the buyer. The sale-leaseback transaction has been accounted for as a financing pursuant to FASB No. 98, *Accounting for Leases*. The \$3.1 million cash payment is included in other accrued liabilities at June 30, 2001. The net book value of the land and buildings sold was approximately \$4.3 million and is included in similarly titled accounts in the June 30, 2001 balance sheet. The Company will record a pretax gain on the transaction of approximately \$7.5 million in the third quarter of 2001, upon the expiration of the leaseback.

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

On April 23, 2001 the Company completed the acquisition of a 338,000 square-foot office/industrial building and approximately twenty acres of land in Poway, California (“the Poway Facility”). The purchase price of the Poway Facility was approximately \$21.3 million and was funded from the Company’s cash reserves in October 2000. The purchase price has been allocated between land and land improvements and buildings and building improvements in the June 30, 2001 balance sheet. The Company remodeled the Poway Facility at a cost of approximately \$3 million and moved its corporate headquarters and the San Diego operations of its Delta Design subsidiary to the Poway Facility in June 2001.

## 6. Purchase of Automated Systems Assets

On July 16, 2001 the Company purchased the assets of the Automated Systems business (“AS”) from Schlumberger Technologies, Inc. for \$14.2 million in cash. AS designs, manufactures and sells semiconductor equipment including pick and place test handlers and burn-in board loaders and unloaders. The acquisition will be accounted for as a purchase. While the purchase price allocation is not yet completed, the Company expects a material portion of the purchase price to be allocated to in-process technology resulting in a charge to operations in the third quarter of 2001.

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### COHU, INC. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS June 30, 2001

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

## RESULTS OF OPERATIONS

Cohu’s primary business activity involves the development, manufacture, marketing and servicing of test handling equipment for the global semiconductor industry. Demand for Cohu’s products can change significantly from period to period as a result of numerous factors including, but not limited to, changes in

global economic conditions, supply and demand for semiconductors, changes in semiconductor manufacturing capacity and processes and competitive product offerings. Due to these and other factors, Cohu's historical results of operations, including the periods described herein, may not be indicative of future operating results.

## **Second Quarter 2001 Compared to Second Quarter 2000**

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

Cohu was impacted by the downturn in the semiconductor equipment industry that began in late 2000 and as a result our net sales decreased 66% to \$29.3 million in 2001 compared to net sales of \$86.8 million in 2000. Sales of semiconductor test handling equipment in 2001 decreased 72% from the 2000 period and accounted for 74% of consolidated net sales in 2001 versus 89% in 2000. Sales of television cameras and other equipment accounted for 17% of net sales in 2001 and decreased 27% while the combined sales of metal detection and microwave equipment decreased 20%.

Gross margin as a percentage of net sales decreased to 25.9% in 2001 from 40.4% in 2000 primarily as a result of lower margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins decreased in 2001 primarily as a result of decreased business volume and increased provisions for excess and obsolete inventory. In the quarter ended June 30, 2001, the Company recorded pretax inventory related charges of approximately \$4.6 million primarily as a result of changes in customer forecasts. Continued changes to customer forecasts may require additional provisions for excess and obsolete inventories that may negatively impact gross margin in future periods. Research and development expense ("R&D") as a percentage of net sales was 22.7% in 2001, compared to 9.6% in 2000, decreasing in absolute dollars from \$8.3 million in 2000 to \$6.6 million in 2001. The decrease in R&D was primarily the result of lower R&D material costs. Selling, general and administrative ("SG&A") expense as a percentage of net sales increased to 22.9% in 2001 from 9.4% in 2000 primarily as a result of the decrease in business volume. SG&A expense in 2001 includes \$.5 million of goodwill amortization offset by a \$.4 million reduction in the allowance for doubtful accounts and bad debt expense. Interest income was \$1.1 million and \$1.3 million in 2001 and 2000, respectively. The provision (credit) for income taxes expressed as a percentage of pre-tax income was (38.9)% in the second quarter of 2001 and 35.1% in 2000. As a result of the factors set forth above, net income was \$12.9 million in 2000 compared to a net loss of \$2.8 million 2001.

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# **COHU, INC.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **June 30, 2001**

## **Six Months Ended June 30, 2001 Compared to Six Months Ended June 30, 2000**

Cohu was impacted by the downturn in the semiconductor equipment industry that began in late 2000 and as a result our net sales decreased 54% to \$73.0 million in 2001 compared to net sales of \$159.5 million in 2000. Sales of semiconductor test handling equipment in 2001 decreased 59% from the 2000 period and accounted for 78% of consolidated net sales in 2001 versus 88% in 2000. Sales of television cameras and other equipment accounted for 15% of net sales in 2001 and decreased 19% while the combined sales of metal detection and microwave equipment also decreased 19%.

Gross margin as a percentage of net sales decreased to 26.1% in 2001 from 39.9% in 2000 primarily as a result of lower margins in the semiconductor equipment business. Within the semiconductor equipment segment, margins decreased in 2001 primarily as a result of decreased business volume and increased provisions for excess and obsolete inventory. In the six months ended June 30, 2001, the Company recorded pretax inventory related charges of approximately \$8.8 million primarily as a result of changes in customer forecasts. Continued changes to customer forecasts may require additional provisions for excess and obsolete inventories that may negatively impact gross margin in future periods. Research and development expense as a percentage of net sales was 20.6% in 2001, compared to 9.4% in 2000, while remaining flat on an absolute dollar basis. SG&A expense as a percentage of net sales increased to 18.1% in 2001 from 9.6% in 2000 primarily as a result of the decrease in business volume. SG&A expense in 2001 includes \$.6 million of goodwill amortization offset by a \$.7 million reduction in the allowance for doubtful accounts and bad debt expense. Interest income was \$2.4 million and \$2.6 million in 2001 and 2000, respectively. The provision (credit) for income taxes expressed as a percentage of pre-tax income was (38.4)% for the first six months of 2001 and 34.8% in 2000. As a result of the factors set forth above, net income was \$20.1 million in 2000 compared to a net loss of \$4.2 million in 2001.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's net cash flows provided by operating activities in the first six months of 2001 totaled \$13.7 million. The major components of cash flows provided by operating activities were a net loss of \$4.2 million offset by the net change in current assets and liabilities totaling \$15.3 million. Net cash used for investing activities included \$3.9 million for the purchase of short-term investments, less maturities, offset by purchases of property, plant and equipment and other assets of \$5.1 million. Net cash used for financing activities was \$.4 million. Cash provided by financing activities included \$1.7 million received from the issuance of stock upon the exercise of stock options offset by \$2.0 million for the payment of dividends. The Company had \$10 million available under its bank line of credit and working capital of \$153.5 million at June 30, 2001. It is anticipated that present working capital and available borrowings under the line of credit will be sufficient to meet the Company's operating requirements for the next twelve months.

## **TRENDS, RISKS AND UNCERTAINTIES**

*The semiconductor industry we serve is highly volatile and unpredictable.*

Cohu's operating results are substantially dependent on our semiconductor equipment business. This capital equipment business is in turn highly dependent on the overall strength of the semiconductor industry. Historically, the semiconductor industry has been highly cyclical with recurring periods of oversupply and excess capacity, which often have had a significant effect on the semiconductor industry's demand for capital equipment, including equipment of the type manufactured and marketed by Cohu. We anticipate that the markets for newer generations of semiconductors and semiconductor equipment may also be subject to similar cycles and severe downturns, such as those experienced in 1996, 1998 and late 2000, continuing into 2001. Reductions in capital equipment investment by

semiconductor manufacturers and semiconductor test subcontractors will materially and adversely affect our business, financial position and results of operations. In addition, the volatile and unpredictable nature of

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

**TRENDS, RISKS AND UNCERTAINTIES (cont.)**

semiconductor equipment demand has in the past and may in the future expose us to significant excess and obsolete inventory write-offs and reserve requirements. In the six months ended June 30, 2001, the Company recorded pretax inventory related charges of approximately \$8.8 million primarily as a result of changes in customer forecasts.

***We have taken and expect to continue to take remedial measures to address the slowdown in the semiconductor equipment industry.***

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

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

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

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

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

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

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

**TRENDS, RISKS AND UNCERTAINTIES (cont.)**

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

Semiconductor equipment and processes are subject to rapid technological change. We believe that our future success will depend in part on our ability to enhance existing products and develop new products with improved performance capabilities. We expect to continue to invest heavily in research and development and must manage product transitions successfully, as introductions of new products could adversely impact sales or margins of existing products. In addition, the introduction of new products, by Cohu or by our competitors, the concentration of our revenues in a limited number of large customers, the migration to new IC test handling methodologies and the custom nature of our inventory parts increases the risk that our established products and related inventory may become obsolete resulting in significant excess and obsolete inventory exposure. This increased exposure resulted in significant charges to operations during the third and fourth quarters of 2000 and the first and second quarters of 2001. Future inventory write-offs and increased inventory reserve requirements could have a material adverse impact on our results of operations and financial condition.



The design, development, commercial introduction and manufacture of new semiconductor test handling equipment is an inherently complex process that involves a number of risks and uncertainties. These risks include potential problems in meeting customer performance requirements, integration of the test handler with other suppliers' equipment and the customers' manufacturing processes, transitioning from product development to volume manufacturing and the ability of the equipment to satisfy the semiconductor industry's constantly evolving needs and achieve commercial acceptance at prices that produce satisfactory profit margins. The design and development of new test handling equipment is heavily influenced by changes in integrated circuit (IC) back-end manufacturing processes and IC package design changes. We believe that the rate of change in such processes and IC packages is accelerating. As a result of these changes and other factors, assessing the market potential and commercial viability of new test handling equipment is extremely difficult and subject to a great deal of risk. In addition, not all IC manufacturers employ the same manufacturing processes. Differences in such processes make it difficult to design standard semiconductor test handler products that are capable of achieving broad market acceptance. As a result we might not accurately assess the semiconductor industry's future test handler requirements and fail to design and develop products that meet such requirements and achieve market acceptance. Failure to accurately assess customer requirements and market trends for new semiconductor test handler products may have a material adverse impact on our operations, financial condition and results of operations.

The transition from product development to the manufacture of new semiconductor equipment is a difficult process and delays in product introductions and problems in manufacturing such equipment are common. We have in the past and may in the future experience difficulties in manufacturing and volume production of our new test handlers. In addition, our after sale support and warranty costs have been significantly higher with new test handlers than with our established products. Future technologies, processes and product developments may render our current or future product offerings obsolete and we might not be able to develop, introduce and successfully manufacture new products or make enhancements to our existing products in a timely manner to satisfy customer requirements or achieve market acceptance. Furthermore, we might not realize acceptable profit margins on such products.

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

**TRENDS, RISKS AND UNCERTAINTIES (cont.)**

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

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

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

We rely on a limited number of customers for a substantial percentage of our net sales. In 2000, four customers of the semiconductor equipment segment accounted for 50% (46% in 1999 and 60% in 1998) of our net sales. The loss of or a significant reduction in orders by these or other significant customers as a result of competitive products, market conditions, outsourcing final IC test to test subcontractors that are not our customers or other factors, would adversely impact our financial condition and results of operations. Furthermore, the concentration of our revenues in a limited number of large customers may cause significant fluctuations in our future annual and quarterly operating results.

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

Our order backlog has historically represented approximately three months of revenue and as a result our visibility over future business activity is limited. Our revenues in the quarter ended June 30, 2001 were, however, significantly lower than our backlog at March 31, 2001, due primarily to customer requested changes to delivery schedules. Due to the possibility of customer changes in delivery schedules, cancellation of orders, potential delays in product shipments, difficulties in obtaining inventory parts from suppliers, failure to satisfy customer acceptance requirements and the inability to recognize revenue under new accounting requirements, our backlog as of any point in time may not be representative of actual sales in any future period. Furthermore, all orders are subject to cancellation or rescheduling by the customer with limited penalty. A reduction in backlog during any particular period, such as occurred in the second quarter of 2001 where the Company's backlog declined to \$34.7 million at June 30, 2001, could have a material adverse effect on our business, financial condition and results of operations.

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

The semiconductor equipment industry is characterized by dramatic and sometimes volatile changes in demand for its products. Changes in product demand result from a number of factors including the semiconductor industry's ever changing and unpredictable capacity requirements and changes in IC design and packaging. Sudden changes in

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COHU, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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June 30, 2001

**TRENDS, RISKS AND UNCERTAINTIES (cont.)**

demand for semiconductor equipment have a significant impact on our operations. In response to a severe industry downturn in 1998, we reduced our total workforce by approximately 40%. During 1999, we increased our workforce by more than 50% as business conditions in the semiconductor equipment industry and our order backlog improved. In the first six months of 2001, we reduced our workforce approximately 30% as a result of a downturn in the semiconductor equipment industry. If the current industry downturn continues, further workforce reductions will be required. Such radical changes in workforce levels place enormous demands on our employees, operations and infrastructure since newly hired personnel rarely possess the expertise and level of experience of current employees. Additionally, these transitions divert management time and attention from other activities. We have in the past and may in the future experience difficulties, particularly in manufacturing, in training the large number of additions to our workforce. In addition, competition for the employment services of certain personnel, particularly those with technical skills, is intense. The volatility in headcount and business levels, combined with the cyclical nature of the semiconductor industry, may require that we invest substantial amounts in new operational and financial systems, procedures and controls. We may not be able to successfully adjust our systems, facilities and production capacity to meet our customers' changing requirements. The inability to meet such requirements will have an adverse impact on our business, financial position and results of operations.

***We have experienced a significant decline in gravity-feed test handler sales to DRAM customers.***

Sales of IC test handlers used in DRAM testing represented a significant percentage of Cohu's total semiconductor equipment related revenue during the period 1994 through 1998. Due to changes in IC package technology, gravity-feed handlers are no longer suitable for handling many types of DRAMs. As a result, we have seen a significant decline in sales of our gravity-feed test handler products. IC handlers used in DRAM applications account for a significant portion of the worldwide IC handler market.

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

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

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

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

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COHU, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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**TRENDS, RISKS AND UNCERTAINTIES (cont.)**

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

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

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

During 2000, 63% of our total net sales were exported to foreign countries, including 71% of the sales in the semiconductor equipment segment. The majority of our export sales are made to destinations in Asia. Instability in global economic markets, particularly in Asia, may adversely impact the demand for capital equipment, including equipment of the type manufactured and marketed by Cohu. In addition, we face intense competition from a number of Asian suppliers that have certain advantages over U.S. suppliers, including Cohu. These advantages include, among other things, proximity to customers, favorable tariffs and affiliation with significantly larger organizations. In addition, changes in the amount or price of semiconductors produced in Asia could impact the profitability or capital equipment spending programs of our foreign and domestic customers.

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

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

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

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

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**COHU, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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June 30, 2001**

**Quantitative and qualitative disclosures about market risk.**

***Interest rate risk.***

At June 30, 2001, our investment portfolio includes fixed-income securities with a fair value of approximately \$87.6 million. These securities are subject to interest rate risk and will decline in value if interest rates increase. Due to the relatively short duration of our investment portfolio, an immediate 10 percent change (e.g. 6.00% to 6.60%) in interest rates would have no material impact on our financial condition or results of operations.

***Foreign currency exchange risk.***

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

Due to all the above and other factors, historical results may not be indicative of results of operations for any future period. In addition, certain matters discussed above are forward-looking statements that are subject to the risks and uncertainties noted herein and the other risks and uncertainties listed from time to time in our filings with the Securities and Exchange Commission, including but not limited to the 2000 Annual Report on Form 10-K, that could cause actual results to differ materially from those projected or forecasted. Cohu undertakes no obligation to update the information, including the forward-looking statements, in this Form 10-Q.

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**Part II OTHER INFORMATION**

**Item 4. Submission of Matters to a Vote of Security Holders**

The Annual Meeting of Stockholders was held on May 15, 2001. At the meeting the following directors were elected:

Director	Number of Common Shares Voted	
	For	Withhold Authority
James W. Barnes	19,125,730	406,538
James A. Donahue	16,431,361	3,100,907

The directors continuing in office until 2002 or 2003 are Harry L. Casari, Harold Harrigian, Gene E. Leary and Charles A. Schwan.

In addition, the stockholders approved the following proposals:

Proposal	Number of Common Shares Voted			
	For	Against	Abstain	Broker Non-Votes
To approve an amendment to the Cohu, Inc. 1997 Employee Stock Purchase Plan, increasing the shares of stock subject to the Plan by 400,000	18,664,250	772,731	95,287	0

**Item 5. Other Information**

On July 15, 2001, Frank W. Davis, a member of the Company's board of directors, died. The Company has no immediate plans to fill Mr. Davis's seat on the board of directors.

On July 16, 2001 the Company purchased the assets of the Automated Systems business ("AS") from Schlumberger Technologies, Inc. for \$14.2 million in cash. AS designs, manufactures and sells semiconductor equipment including pick and place test handlers and burn-in board loaders and unloaders. The acquisition will be accounted for as a purchase. While the purchase price allocation is not yet completed, the Company expects a material portion of the purchase price to be allocated to in-process technology resulting in a charge to operations in the third quarter of 2001.

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

(a) Exhibits:

- 3.1 -- Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference to Exhibit 3.1(a) from the Cohu, Inc. Form 10-Q for the quarterly period ended June 30, 1999
- 3.1(a) -- Certificate of Amendment of Amended and Restated Certificate of Incorporation of Cohu, Inc. incorporated herein by reference from the Cohu, Inc. Form S-8 filed June 30, 2000, Exhibit 4.1(a)
- 3.2 -- Amended and Restated Bylaws of Cohu, Inc. incorporated herein by reference to Exhibit 3.2 from the Cohu, Inc. Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 1996
- 4.1 -- Rights Agreement dated November 15, 1996, between Cohu, Inc. and Chase Mellon Shareholder Services, L.L.C., incorporated herein by reference to Exhibit 4.1 to the Cohu, Inc. Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 1996
- 10.1 -- Amendment No. 3, dated April 26, 2001, to Business Loan Agreement between Cohu, Inc. and Bank of America, N.A.
- 10.2 -- Non-Recourse Promissory Note Secured by Deed of Trust between Delta Design, Inc. and T. C. Kearny Villa, L.P., dated April 11, 2001
- 10.3 -- Agreement of Purchase and Sale and Joint Escrow Instructions between Cohu, Inc. and T.C. Kearny Villa, L.P., dated April 11, 2001
- 10.4 -- Cohu, Inc. 1997 Employee Stock Purchase Plan (as amended)
- 10.5 -- Cohu, Inc. 1996 Outside Directors Stock Option Plan (as amended)

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

**SIGNATURES**

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

COHU, INC.

(Registrant)

Date: July 30, 2001

/s/ James A. Donahue

James A. Donahue  
President & Chief Executive Officer

Date: July 30, 2001

/s/ John H. Allen

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

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[BANK OF AMERICA LOGO]

AMENDMENT TO DOCUMENTS

AMENDMENT NO. 3 TO BUSINESS LOAN AGREEMENT

This Amendment No. 3 (the "Amendment") dated as of April 26, 2001, is between Bank of America, N.A. (the "Bank"), formerly Bank of America NT&SA, and Cohu, Inc. (the "Borrower").

RECITALS

A. The Bank and the Borrower entered into a certain Business Loan Agreement dated as of June 15, 1998, as previously amended (the "Agreement").

B. The Bank and the Borrower desire to further amend the Agreement.

AGREEMENT

1. DEFINITIONS. Capitalized terms used but not defined in this Amendment shall have the meaning given to them in the Agreement.

2. AMENDMENTS. The Agreement is hereby amended as follows:

2.1 Paragraph 1.2 of the Agreement is amended to read in its entirety as follows:

"1.2 AVAILABILITY PERIOD. The line of credit is available between the date of this Agreement and May 1, 2002 (the "Expiration Date") unless the Borrower is in default."

3. REPRESENTATIONS AND WARRANTIES. When the Borrower signs this Amendment, the Borrower represents and warrants to the Bank that: (a) there is no event which is, or with notice or lapse of time or both would be, a default under the Agreement except those events, if any, that have been disclosed in writing to the Bank or waived in writing by the Bank, (b) the representations and warranties in the Agreement are true as of the date of this Amendment as if made on the date of this Amendment, (c) this Amendment is within the Borrower's powers, has been duly authorized, and does not conflict with any of the Borrower's organizational papers, and (d) this Amendment does not conflict with any law, agreement, or obligation by which the Borrower is bound.

4. CONDITIONS: This Amendment will be effective when the Bank receives the following items, in form and content acceptable to the Bank:

4.1 This Amendment duly executed by the Borrower.

4.2 Certificate of Good Standing for the Borrower from its state of formation.

5. EFFECT OF AMENDMENT. Except as provided in this Amendment, all of the terms and conditions of the Agreement shall remain in full force and effect.

This Amendment is executed as of the date stated at the beginning of this Amendment.

BANK OF AMERICA, N.A.

Cohu, Inc.

X /s/ Virginia Hollis

X /s/ John H. Allen

By: Virginia Hollis  
Assistant Vice President

By: John H. Allen  
Vice President/Finance & Chief  
Financial Officer

DO NOT DESTROY THIS NOTE: When paid, this Note, with the Deed of Trust securing same, must be surrendered to the trustee for cancellation before reconveyance.

NON-RECOURSE PROMISSORY NOTE SECURED BY DEED OF TRUST

\$9,375,000.00

April 11, 2001

FOR VALUE RECEIVED, the undersigned, TC KEARNY VILLA, L.P., a Delaware limited partnership ("Borrower"), whose address is 4250 Executive Square, Suite 200, La Jolla, California 92037, Attn: Dorsey B. Abshier, promises to pay to DELTA DESIGN, INC., a Delaware corporation ("Lender"), or order, at 5755 Kearny Villa Road, San Diego, California 92123, or such other place as Lender may designate, in lawful money of the United States the principal sum of Nine Million Three Hundred Seventy-Five Thousand and 00/100 Dollars (\$9,375,000.00) together with interest thereon as provided herein. The outstanding principal amount of the Loan and interest thereon are payable at the time and in the manner set forth herein. This Note is secured by a Short Form Deed of Trust and Assignment of Rents dated of even date herewith executed by Borrower, as trustor, to Chicago Title Company, as trustee, in favor of Lender, as beneficiary (the "Deed of Trust"), encumbering that certain real property (the "Property") more particularly described in the Deed of Trust.

1. Maturity Date.

(a) The then outstanding principal amount of this Note, together with all interest unpaid and accrued thereon, shall be due and payable on the date that is six (6) months after the date of this Note (the "Original Maturity Date"). Notwithstanding the foregoing, Borrower shall have the option to extend the Original Maturity Date for one hundred eighty (180) days by satisfying each of the following conditions precedent: (i) delivery of written notice to Lender, at least fifteen (15) days prior to the Original Maturity Date, that Borrower desires to extend the Original Maturity Date, (ii) payment delivered with the foregoing notice of an extension fee in the amount of Forty-Six Thousand Eight Hundred Seventy-Five Dollars (\$46,875) which is equal to one half of one percent (0.5%) of the original principal amount of the Loan; (iii) delivery to Lender of an endorsement to Lender's title policy obtained in connection with the Loan, insuring that the priority of the lien of the Deed of Trust will not be impaired by such extension and (iv) execution of such documents as Lender reasonably requires to evidence such extension. The term "Maturity Date" as used in this Note shall mean the Original Maturity Date, unless Borrower timely extends the Original Maturity Date as provided in this Section 1(a), in which event the Maturity Date shall mean the Original Maturity Date, as so extended.

(b) If the Maturity Date shall fall on a day other than a Business Day (defined below), payment of the outstanding balance of the principal and accrued interest due under the terms hereof shall be made on the next succeeding Business Day and such extension of time shall be included in computing any interest with respect of such payment. As used in this Note, "Business Day" means a day other than Saturday, Sunday or any Optional Bank Holiday (as defined in Section 7.1 of the California Civil Code).

## 2. Payment of Interest.

(a) Borrower will pay interest only monthly on the then outstanding principal balance of this Note, commencing May 1, 2001, and continuing on the first (1st) day of each subsequent month thereafter until the entire indebtedness evidenced by this Note is fully paid.

(b) Interest on the outstanding principal amount of the Loan, shall accrue at eight percent (8%) per annum from and after the date hereof.

3. Non-Recourse. Notwithstanding anything to the contrary contained in this Note or the Deed of Trust, (a) this Note is non-recourse as to Borrower, and (b) Lender's recourse under this Note shall be limited solely to the Property and Lender waives its right to enforce against Borrower a judgment imposing liability on Borrower for any deficiency in payment of the indebtedness evidenced by this Note or in payment of financial obligations under this Note or the Deed of Trust. Accordingly, neither Borrower nor any of its officers, directors, shareholders, employees, members, agents or affiliates shall have any personal liability whatsoever under this Note and no other property or assets of Borrower or any other person shall be subject to levy, execution or other enforcement procedure for the satisfaction of Lender's remedies under or with respect to this Note or the Deed of Trust.

4. Assignability. Borrower shall not transfer, assign or convey its rights or obligations under this Note without first obtaining Lender's written consent which may be withheld in its sole and absolute discretion. Notwithstanding the foregoing or anything to the contrary contained in this Note or the Deed of Trust, Borrower may, without obtaining Lender's consent, assign the Property and its rights and obligations hereunder to an entity affiliated with Borrower, or to a new entity in which Borrower is a member, partner or manager, or with whom Borrower (or any affiliate thereof) has entered into a development services agreement, a property management agreement or other agreement of a similar nature with respect to the Property or any portion thereof, and Borrower will thereafter be relieved of liability hereunder; provided that Borrower provides prior written notice of such transfer to Lender, and the transferee executes a commercially reasonable document whereby transferee assumes all obligations under this Note and the Deed of Trust.

5. Default. Borrower shall be in default under this Note, and an "Event of Default" will have occurred if (i) Borrower defaults in the performance or observance of any covenants, conditions, provisions or agreements contained in this Note or the Deed of Trust and fails to cure any such default within twenty (20) days after written notice thereof given to Borrower by Lender; provided, however, that if any such default reasonably takes longer than twenty (20) days to cure, then it shall not be deemed to be an Event of Default if Borrower commences such cure within said twenty (20) day period and thereafter diligently prosecutes such cure to completion; or (ii) any amount payable under this Note is not paid when due, and the Borrower fails to cure such default within three (3) Business Days after written notice thereof given to Borrower by Lender.

6. Remedies. Upon the occurrence of an Event of Default and without demand or notice, Lender shall have the option to declare the entire outstanding principal balance of the

Loan together with all accrued interest thereon immediately due and payable and to exercise all rights and remedies available to it under this Note and the Deed of Trust.

7. Prepayment. Borrower may, at any time in its sole discretion, prepay the outstanding principal amount of the Loan, either in whole or in part, without penalty or premium.

8. No Waiver. No waiver by Lender of any default or breach by Borrower hereunder shall be implied from any omission by Lender to take action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default in the waiver and such waiver shall be operative only for the time and to the extent therein stated. Waivers of any covenant, term or condition contained herein shall not be construed as a waiver of any subsequent breach of the same covenant, term or condition. The consent or approval by Lender to or of any act by Borrower requiring further consent or approval shall not be deemed to waive or render unnecessary the consent or approval to or of any subsequent similar act.

9. Miscellaneous.

(a) Notices required or permitted to be given by Borrower to Lender or Lender to Borrower shall be in writing and shall be effective only if sent by personal delivery, overnight courier or United States certified mail, return receipt requested, postage prepaid, addressed to Lender at the address set forth above or to Borrower at the address set forth above. Notices shall be deemed effective, given and delivered on the date of actual receipt of such notice, when delivered in the manner designated in this Section 9(a).

(b) If there is an action by Lender or Borrower based upon the terms of this Note, the prevailing party shall be entitled to recover the reasonable attorneys' fees and costs and expenses incurred in prosecuting or defending such action.

(c) This Note may not be changed orally, but only by an agreement in writing signed by the party against whom enforcement is sought. This Note shall be construed in accordance with and governed by the laws of the State of California without regard to choice of law.

(d) This Note shall be binding upon Borrower and its heirs, representatives, successors and assigns.

(e) Time is of the essence with respect to the performance of every provision of this Note.

(f) Any provision of this Note which shall prove to be invalid, void, or illegal shall in no way affect, impair or invalidate any other provision hereof, and any such other provisions shall remain in full force and effect.

10. Late Charge. Lender, by accepting this Note, and Borrower agree that if any payment due hereunder is received by Lender more than three (3) Business Days after Borrower receives written notice from Lender of Borrower's failure to make such payment, Borrower will pay to Lender a late charge of five percent (5%) of such payment so overdue. In connection



therewith, Borrower and Lender agree as follows: because of such non-payment, Lender will incur certain costs and expenses including, but not limited to, administrative costs, collection costs, and other direct and indirect costs in an uncertain amount; it would be impractical or extremely difficult to fix the exact amount of such costs and expenses in such event; such late charge is a fair and reasonable sum considering all of the circumstances existing on the date hereof and represents a fair and reasonable estimate of the costs and expenses which will be sustained by Lender due to the failure of Borrower to make timely payments; and such late charge will constitute liquidated damages caused by such non-payment but only to the extent such late charge is paid by Borrower and accepted by Lender and only upon the condition that any such default and all other defaults are completely cured concurrently with such payment.

11. Default Rate. If any payment due under this Note is not received within three (3) Business Days after Borrower receives written notice from Lender of Borrower's failure to make such payment, Lender shall have the right, without acceleration of the indebtedness evidenced hereby, to collect interest on such amount then due at a rate per annum equal to the lesser of (i) eight percent (8%), or (ii) the maximum rate of interest, if any, which may be charged or collected from Borrower under applicable law. Such interest shall be immediately due and payable and shall accrue until full payment is received.

12. Authority. Borrower has or will have the legal power, right and authority to enter into the Loan, this Note and the Deed of Trust, and to consummate the transactions contemplated hereby. Borrower represents and warrants that each individual executing this Note and the Deed of Trust on behalf of Borrower has or will have the legal power, right and actual authority to execute this Note and the Deed of Trust and to bind Borrower to the terms and conditions hereof and thereof.

13. Interest Rate Limitation. It is the intent of Lender and Borrower in the execution of this Note and all other instruments securing this Note that the Loan evidenced hereby be exempt from the restrictions of the usury laws of the State of California. In the event that, for any reason, it should be determined that California usury law is applicable to the Loan, Lender and Borrower stipulate and agree that none of the terms and provisions contained herein or in the Deed of Trust shall ever be construed to create a contract for the use, forbearance or detention of money requiring payment of interest at a rate in excess of the interest rate permitted to be charged by the laws of the State of California. In such event, if Lender shall collect monies which are deemed to constitute interest which would otherwise increase the effective interest rate on this Note to a rate in excess of the rate permitted to be charged by the laws of the State of

California, all such sums shall, at the option of Lender, be credited to the payment of the sums due hereunder or returned to Borrower.

"BORROWER"

TC KEARNY VILLA, L.P.,  
a Delaware limited partnership

By: Trammell Crow So. Cal., Inc.,  
a Delaware corporation

By: /s/ Dorcey B. Abshier  
-----  
Name: Dorcey B. Abshier  
-----  
Its: Vice-President  
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"LENDER"

DELTA DESIGN, INC.  
a Delaware corporation

By: Delta Design, Inc.  
a Delaware Corporation

By: /s/ John H. Allen  
-----  
Name: John H. Allen  
-----  
Its: Vice-President  
-----

AGREEMENT OF PURCHASE AND SALE  
AND JOINT ESCROW INSTRUCTIONS

TO: Chicago Title Company  
925 B Street  
San Diego, California 92101

Escrow No.: 013038051  
Escrow Officer: Lori Brandt  
Title Order No.: 13038051-UI3  
Title Officer: Michael Brady

THIS AGREEMENT OF PURCHASE AND SALE AND JOINT ESCROW INSTRUCTIONS ("Agreement") is made and entered into as of this 11th day of April, 2001, by and between TC KEARNY VILLA, L.P., a Delaware limited partnership ("Buyer"), and COHU, INC., a Delaware corporation ("Seller"), with respect to the following:

R E C I T A L S :

A. Seller desires to sell and convey to Buyer all of Seller's right, title and interest in and to the following:

1. That certain real property located in the City of San Diego, County of San Diego, State of California, located at 5755, 5775 and 5785 Kearney Villa Road, consisting of approximately six (6) acres of land (the "Land"), as described on Exhibit "A" attached hereto, together with the office buildings located on the Land, containing in the aggregate approximately 156,000 square feet of leasable space, associated parking areas, and all other transferable improvements, if any, to the extent such rights are owned and assignable by Seller, located on the Land (the "Improvements");

2. All transferable rights, privileges, easements and appurtenances benefiting the Land and/or the Improvements, including, without limitation, all mineral and water rights and all easements, rights-of-way and other appurtenances used or connected with the beneficial use or enjoyment of the Land and/or the Improvements, if any, to the extent such rights are owned and assignable by Seller (the Land, the Improvements and all such rights, privileges, easements and appurtenances are sometimes collectively hereinafter referred to as the "Real Property");

3. All transferable rights in personal property, equipment, supplies and fixtures (collectively, the "Personal Property") owned by Seller and used or useful in the operation of the Real Property (to the extent such rights are owned and transferable by Seller) excluding those items of personal property which Buyer and Seller agree may be removed from the Property as provided in Paragraph 7(a)(vi) below; and

4. All of Seller's interest in any intangible property used in connection with the Real Property and Personal Property, including, without limitation, all contract rights, warranties, guaranties, licenses, permits, entitlements, governmental approvals and certificates of occupancy which benefit the Real Property and/or the Personal Property (the "Intangible Personal Property"), to the extent such rights are assignable. Notwithstanding the foregoing, Buyer shall not be assigned or have the right to use the name "Cohu" or "Delta Design". The Real Property, the Personal Property and the Intangible Personal Property are sometimes collectively hereinafter referred to as the "Property."

B. Seller desires to sell the Property to Buyer and Buyer desires to purchase the Property from Seller upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer agree that the terms and conditions of this Agreement and the instructions to Chicago Title Company ("Escrow Holder") with regard to the escrow ("Escrow") created pursuant hereto are as follows:

1. Purchase and Sale. Seller hereby agrees to sell the Property to Buyer, and Buyer hereby

agrees to purchase the Property from Seller, upon the terms and conditions herein set forth.

2. Purchase Price. The purchase price ("Purchase Price") for the Property shall be Twelve Million Five Hundred Thousand and No/100 Dollars (\$12,500,000.00).

3. Payment of Purchase Price. The Purchase Price for the Property shall be payable by Buyer as follows:

(a) Initial Deposit. Within two (2) business days after the "Opening of Escrow" (as defined in Paragraph 4(a) hereof), Buyer shall deposit or cause to be deposited with Escrow Holder in cash, by a certified or bank cashier's check made payable to Escrow Holder or by a confirmed wire transfer of funds (hereinafter referred to as "Immediately Available Funds"), the sum of One Hundred Thousand and 00/100 Dollars (\$100,000.00) (the "Initial Deposit"). Upon Escrow Holder's receipt of the Initial Deposit, Escrow Holder shall immediately invest it in an interest bearing account of a federally insured bank or savings and loan association acceptable to Buyer. The Initial Deposit and all interest thereon shall be fully refundable to Buyer if Buyer does not satisfy or waive the contingencies of Paragraph 7(a)(i), (ii), (iii) and (iv) hereof on or before the expiration of the "Contingency Period" (as defined in Paragraph 7(a)(ii) hereof).

(b) Additional Deposit. Upon the expiration of the Contingency Period, provided Buyer has not earlier terminated this Agreement in accordance with any of its rights to do so contained herein, Buyer shall deposit or cause to be deposited with Escrow Holder in Immediately Available Funds, the additional sum of Fifty Thousand and 00/100 Dollars (\$50,000.00) (the "Additional Deposit"). Upon Escrow Holder's receipt of the Additional Deposit, Escrow Holder shall immediately invest it in the interest bearing account described in Paragraph 3(a) above. The Initial Deposit and the Additional Deposit, or so much thereof as shall have then been deposited into Escrow, together with all interest accrued thereon, shall collectively hereinafter be referred to as the "Deposit." The Deposit shall be nonrefundable to Buyer in the event this Agreement and the Escrow is thereafter cancelled by reason of a default by Buyer or a breach by Buyer of any covenant, representation or warranty contained herein, as provided in and subject to the provisions of Paragraph 16(a) hereof. The Deposit and all interest which shall accrue thereon shall be applied to the payment of the Purchase Price upon the Close of Escrow, or refunded to Buyer in the event this Agreement and the Escrow is cancelled for any reason other than a default by Buyer or a breach by Buyer of any covenant, representation or warranty hereunder, in which case the Deposit, together with any interest accrued thereon, shall be delivered to Seller pursuant to Paragraph 16(a) below.

(c) Closing Funds. Prior to the Close of Escrow, as defined in Paragraph 4(b) below, Buyer shall deposit or cause to be deposited with Escrow Holder, in Immediately Available Funds, the balance of the Purchase Price (i.e., after deducting the above Deposit), and plus or minus Buyer's share of closing costs, prorations and charges payable pursuant to this Agreement.

#### 4. Escrow

(a) Opening of Escrow. For purposes of this Agreement, the Escrow shall be deemed opened on the date Escrow Holder shall have received a fully executed original or originally executed counterparts of this Agreement from both Buyer and Seller (such date being referred to hereinafter as the "Opening of Escrow"). Escrow Holder shall notify Buyer and Seller in writing of the date Escrow is opened. Buyer and Seller agree to execute, deliver and be bound by any reasonable or customary supplemental escrow instructions of Escrow Holder or other instruments as may reasonably be required by Escrow Holder in order to consummate the transaction contemplated by this Agreement. Any such supplemental instructions shall not conflict with, amend or supersede any portions of this Agreement. If there is any conflict or inconsistency between such supplemental instructions and this Agreement, this Agreement shall control.

(b) Close of Escrow. For purposes of this Agreement, the "Close of Escrow" shall be the date that the grant deed, the form of which is attached hereto as Exhibit "B" (the "Grant Deed"), conveying the Real Property to Buyer, is recorded in the Official Records of San Diego County, California (the "Official Records"). Unless extended in writing by Buyer and Seller, the Close of Escrow shall occur on or before the date which is twelve (12) days after expiration of the

Contingency Period (the "Closing Date"). Seller shall deliver possession of the Property to Buyer upon the Close of Escrow, subject only to the "Approved Condition of Title" (as defined in Paragraph 5 below) and the "Short Term Lease" (as defined in Paragraph 7(a)(vii) below).

5. Condition of Title. It shall be a condition to the Close of Escrow for Buyer's benefit that title to the Real Property be conveyed to Buyer by Seller by the Grant Deed subject only to the following approved condition of title ("Approved Condition of Title"):

(a) a lien to secure payment of real estate taxes, not delinquent;

(b) the lien of supplemental taxes assessed pursuant to Chapter 3.5 commencing with Section 75 of the California Revenue and Taxation Code ("Code"), but only to the extent that such supplemental taxes are attributable to the transaction contemplated by this Agreement. Seller shall be responsible for, and shall indemnify, protect, defend (with counsel chosen by Buyer) and hold harmless Buyer and the Real Property from and against any and all supplemental taxes assessed pursuant to the Code, to the extent that such taxes are attributable to any period occurring prior to the Close of Escrow;

(c) matters affecting the Real Property created by or with the written consent of Buyer; and

(d) exceptions which are disclosed by the Report described in Paragraph 7(a)(i) hereof and which are approved or deemed approved by Buyer in accordance with such Paragraph 7(a)(i).

Seller covenants and agrees that during the term of the Escrow, it will not cause or permit title to the Real Property to differ from the Approved Condition of Title described in this Paragraph 5. Any liens, encumbrances, encroachments, easements, restrictions, conditions, covenants, rights, rights-of-way or other matters affecting the Approved Condition of Title which may appear of record or be revealed after the date of the Report described in Paragraph 7(a)(i) below shall also be subject to Buyer's approval and must be eliminated or ameliorated by Seller to Buyer's sole, absolute and subjective satisfaction prior to the Close of Escrow as a condition to the Close of Escrow for Buyer's benefit.

6. Title Policy. Title shall be evidenced by the willingness of the "Title Company" (as defined in Paragraph 7(a)(i) hereof) to issue its ALTA Extended Coverage (Form B-1970) Owner's Policy of Title Insurance ("Title Policy") in the amount of the Purchase Price, showing title to the Property vested in Buyer or its title nominee as provided in Paragraph 20 hereof and subject only to the Approved Condition of Title.

#### 7. Conditions to Close of Escrow

(a) Conditions to Buyer's Obligations. The Close of Escrow and Buyer's obligation to consummate the transaction contemplated by this Agreement are subject to the satisfaction of the following conditions (or Buyer's written waiver thereof, it being agreed that Buyer may waive in writing any or all of such conditions) for Buyer's benefit on or prior to the dates designated below for the satisfaction of such conditions. In the event Buyer terminates this Agreement and the Escrow due to the nonsatisfaction of any such conditions within the timeframe prescribed herein, then Buyer shall be entitled to the immediate return of the Deposit and all interest accrued thereon:

(i) Title. Buyer shall have approved the legal description of the Land and any matters of title as disclosed by the following documents (collectively, the "Title Documents") prepared at Seller's sole cost and expense and to be delivered to Buyer at Seller's sole cost and expense: (A) a standard preliminary title report dated on or after the date of this Agreement issued by Chicago Title Company (the "Title Company") with respect to the Land, as such report may be amended or supplemented from time to time to reflect additional

title matters or survey exceptions (the "Report"); (B) legible copies of all documents, whether recorded or unrecorded, referred to in the Report; and (C) a color-coded map plotting all easements disclosed by the Report. Seller shall cause the Title

Documents to be delivered to Buyer concurrently with the Opening of Escrow. Buyer may also obtain, at Buyer's sole cost and expense, an ALTA as-built survey of the Land (the "Survey").

Buyer shall have until the expiration of the Contingency Period to give Seller and Escrow Holder written notice ("Buyer's Title Notice") of Buyer's disapproval or conditional approval of the legal description or any matters shown in or disclosed by the Title Documents and the Survey.

The failure of Buyer to give Buyer's Title Notice on or before the Contingency Period shall be deemed to constitute Buyer's approval of the respective matters relating thereto. If Buyer disapproves or conditionally approves any of the foregoing matters, Seller may, within five (5) days after its receipt of Buyer's Title Notice, elect to eliminate or ameliorate to Buyer's sole, absolute and subjective satisfaction such disapproved or conditionally approved matters. Within such five (5) day period, Seller shall give Buyer written notice (which shall hereinafter be referred to as "Seller's Title Notice") of those disapproved or conditionally approved matters, if any, which Seller covenants and agrees to either eliminate from the Title Policy as exceptions to title to the Property or to ameliorate to Buyer's sole, absolute and subjective satisfaction by the Closing Date as a condition to the Close of Escrow for Buyer's benefit. If Seller does not elect in Seller's Title Notice to eliminate or ameliorate any disapproved or conditionally approved matters as provided above, or Buyer disapproves, in Buyer's sole, absolute and subjective discretion, Seller's Title Notice, then Buyer shall have the right, by a writing delivered to Seller and Escrow Holder prior to the Closing Date, to: (A) waive its prior disapproval, in which event said disapproved matter(s) shall be deemed approved, or (B) terminate this Agreement and the Escrow created pursuant hereto, in which event the Deposit and all interest accrued thereon shall be immediately returned to Buyer, and this Agreement, the Escrow and the rights and obligations of the parties hereunder shall terminate. Notwithstanding anything to the contrary contained in this Agreement, Buyer hereby disapproves all liens evidencing monetary encumbrances (other than liens for non-delinquent real property taxes) and Seller agrees to cause all such liens to be eliminated at Seller's sole cost and expense (including all prepayment penalties and charges) prior to or concurrently with the Close of Escrow.

(ii) Review and Approval of Documents and Materials. Seller shall make available to Buyer concurrently within the Opening of Escrow the documents and materials respecting the Property set forth below (the "Documents and Materials"). From the Opening of Escrow until 5 p.m. Pacific Time on April 6, 2001 (the "Contingency Period"), Buyer shall have the right to review and approve or disapprove, in its sole, absolute and subjective discretion, any or all of the Documents and Materials. The failure of Buyer to approve of the Documents and Materials on or before the expiration of the Contingency Period shall be deemed to constitute Buyer's disapproval thereof, in which event this Agreement shall terminate and the Deposit shall be returned to Buyer.

(A) Permits. Any and all governmental approvals (such as approved building permits, building inspection approvals and certificates of occupancy) and/or authorizations pertaining to the Property to the extent in the possession or control of Seller;

(B) Improvement Plans. Complete "as-built" plans, drawings and specifications for the Improvements to the extent in the



possession or control of Seller;

(C) Agreements. Legible copies of any and all insurance policies, broker listing agreements, construction contracts, management contracts, maintenance contracts, service contracts, reciprocal easement agreements, if any,

utility will-serve letters and any other contracts or agreements affecting or relating to the ownership, operation, maintenance, construction or development of the Property, including, without limitation, copies of all warranties with respect thereto (collectively, the "Contracts");

(D) Personal Property List. A detailed list ("Personal Property Schedule") of all personal property, including, without limitation, any and all fixtures, equipment and tools owned by Seller and used on or in connection with the Property, which are to be conveyed to Buyer at Close of Escrow pursuant to the Bill of Sale described in Paragraph 8(d) below, together with a copy of all warranties and guaranties applicable thereto. Said list shall reflect any and all security interests in said personal property, and Seller shall cause, at Seller's sole cost and expense, said personal property to be released from any such security interests at the Close of Escrow;

(E) Tax Statements. Legible copies of the most recently issued bills for all real property taxes and assessments and all personal property taxes payable with respect to the Property, or any portion thereof;

(F) Schedule of Expenses. A schedule reflecting any and all expenses for the ownership, operation, maintenance and repair of the Property for the calendar years of 1998 and 1999 and for the calendar year 2000 up to and including the month of October, 2000, which schedule shall include, without limitation, the following:

(1) annual insurance premiums for all forms of coverage;

(2) real property taxes and assessments;

(3) utility charges, management fees, maintenance and repair costs;

(4) any and all other costs and expenses incurred in connection with the ownership, operation, maintenance and repair of the Property; and

(5) any material extraordinary or periodic expenses, repairs or other improvements which Seller anticipates will be incurred or will become necessary within the twelve (12) months following the Closing Date in connection with the ownership, operation, maintenance and repair of the Property;

(G) Soils and Engineering Reports. All existing and available soils, environmental and building reports and engineering data pertaining to the Real Property or any portion thereof and any and all architectural studies, grading plans, topographical maps and similar data respecting the Real Property which are in the possession or control of Seller;

(H) Miscellaneous. Such other documents in Seller's possession or control which relate to the Property which Buyer shall reasonably request.

(iii) Inspections and Studies. On or before the expiration of the Contingency Period, Buyer shall have

the right to approve or disapprove, in Buyer's sole, absolute and subjective discretion, the results of any and all inspections, investigations, tests and studies, including, without limitation, investigations with regard to zoning, building codes and other governmental regulations, architectural inspections, engineering tests, economic feasibility studies and soils, seismic and geologic reports, as well as toxic and environmental reports with respect to the Property, inspections of all or any portion of the Improvements (including, without limitation, structural, mechanical and electrical systems, roofs, pavement, landscaping and public utilities), and any other physical inspections and/or investigations as Buyer may elect to make or obtain. The failure of Buyer to approve said results on or prior to the expiration of the Contingency Period shall be deemed to constitute Buyer's disapproval thereof, in which event this Agreement shall

terminate and the Deposit shall be returned to Buyer.

(A) Access. During the term of this Escrow, Buyer shall be afforded access by Seller to review Seller's books and records relating to the Property, and Buyer, its agents, consultants, contractors and subcontractors shall have the right to enter upon the Property to conduct or make any and all inspections and tests (including, without limitation, environmental assessments of the Real Property) as may be necessary or desirable in Buyer's sole, absolute and subjective judgment and discretion. Notwithstanding the foregoing, Buyer shall provide Seller with at least twenty-four (24) hours prior written or verbal notice before entering the Property for the purpose of making examinations, tests, analyses, investigations, surveys, inquiries and other inspections in connection with Buyer's efforts to bring about satisfaction of the conditions precedent set forth in Paragraph 7. Such inspections shall only be done during normal business hours. Buyer shall not have the right to perform borings, samplings, groundwater tests and other intrusive physical environmental audit procedures (collectively "Subsurface Testing") on the Property without Buyer first obtaining the prior written approval of Seller, which approval shall not be unreasonably withheld provided that Buyer complies with the terms and conditions of this Paragraph. Any Subsurface Testing shall be conducted by a licensed, insured environmental consulting firm reasonably acceptable to Seller. If Buyer elects to perform such Subsurface Testing, Buyer shall present to Seller for its approval a proposed scope of such work at least five (5) days before such proposed Subsurface Testing and Seller may elect to require Seller's environmental consultant to be present during the performance of any Subsurface Testing. All of such examinations, tests, analyses, investigations, surveys, inquiries and other inspections (including Subsurface Testing) to be performed by Buyer under this Paragraph shall be performed by Buyer at Buyer's sole cost and expense.

(B) Confidentiality. Buyer, and its agents, employees, contractors and representatives, shall not disclose to any third party, including any governmental or quasi-governmental authority, the results of any examinations, tests, analyses, investigations, surveys, inquiries or other inspections conducted by, or at the request of, Buyer on or regarding the Property, except: (i) to the extent that Buyer is required to do so pursuant to applicable law, provided that, prior to such disclosure, Buyer shall notify Seller of Buyer's belief that Buyer is required to disclose such information; and (ii) to those of Buyer's consultants, partners, lenders, accountants, and attorneys who require such information in order to perform the services for which they were retained; provided that, prior to such disclosure, Buyer shall direct each such consultant not to disclose any such information to any other person or entity.

(C) Indemnity. Buyer shall indemnify, defend, protect and hold Seller harmless from and against any and all loss, cost, damage, injury, claim, liability or expenses (including attorneys' fees) arising out of claims of injury to or death of persons, damage to property, or claims of lien for work or labor performed, materials or supplies furnished as a result of

the exercise of Buyer's (or its agents', contractors', employees' or authorized representatives') right of entry pursuant to this Paragraph or the performance of Buyer's due diligence under this Agreement; provided that Buyer shall not be liable for any losses or liabilities resulting from Buyer's investigations uncovering the existence of any environmental contamination or any other defects or conditions which adversely impact the Property. In addition to the foregoing, Buyer agrees to restore the Property to the condition existing prior to Buyer's investigation of the Property.

(D) Buyer's Work Product. Upon termination of this Agreement for any reason whatsoever, Buyer shall promptly deliver to Seller all reports,

plans, specifications, studies, drawings, photographs, models, surveys, test results and other documents or work product of Buyer which are not subject to any confidentiality agreement (it being agreed that Buyer shall use good faith efforts to have its reports prepared on a non-confidential basis) or do not constitute financial projections of Buyer ("Work Product"), or its consultants, agents, employees and independent contractors, either received by Buyer from Seller or any third person, or prepared by or for Buyer, relating to the Property or in any way arising out of this Agreement. Such Work Product shall be delivered to Seller on an "as-is" basis, without any representation or warranty.

(E) Insurance. Before any entry onto the Property under this Paragraph, Buyer shall procure and furnish to Seller a certificate of insurance showing that Buyer has obtained a policy of commercial liability insurance with combined single limit coverage of One Million Dollars (\$1,000,000.00), naming Seller as an additional insured, which shall be issued by a responsible insurer licensed to conduct insurance business in California. Such insurance policy shall expressly provide that such insurance may not be canceled or reduced in scope or coverage without at least thirty (30) days' prior written notice to Seller.

(iv) Representations, Warranties and Covenants of Seller. Seller shall have duly performed each and every covenant and agreement to be performed by Seller pursuant to this Agreement and Seller's representations, warranties and covenants set forth in Paragraph 14 hereof shall be true and correct as of the Closing Date.

(v) No Material Changes. At the Closing Date, there shall have been no material adverse changes in the physical or environmental condition of the Property from and after the Opening of Escrow.

(vi) Seller's Personal Property. As a condition, for Buyer's and Seller's benefit, prior to the expiration of the Contingency Period, Buyer and Seller shall agree upon a list of personal property that Seller shall remove from the Property and a list of all items of repair to the Property that will be necessitated as a result of the removal of Seller's personal property from the Property. To effectuate the foregoing, Seller agrees to provide Buyer with the foregoing lists within five (5) business days following the Opening of Escrow. Thereafter, the parties shall mutually meet and confer to negotiate the final lists. If the lists are not mutually approved by the expiration of the Contingency Period, either Buyer or Seller shall have the right to terminate this Agreement by delivering written notice to the other party by 5:00 p.m. on the date the Contingency Period expires.

(vii) Short Term Lease. Prior to the expiration of the Contingency Period, Buyer and Seller shall agree upon the terms and form of short term lease ("Short Term Lease") for Seller to occupy the Property following the Close of Escrow. The terms and conditions of the Short Term Lease shall include a monthly base rental rate of One Hundred Thirty Two Thousand Six Hundred and 00/100 Dollars, shall be "triple net", with Seller to pay for all costs and expenses in connection with the Property during the term of such lease (including, without limitation, taxes, insurance and operating expenses), shall be for a term of three (3) months (or as otherwise agreed to by the parties), and shall otherwise be upon the business and other terms agreed to by the parties prior to the expiration of the Contingency Period.

(viii) Deposits. Seller shall have made all deposits with Escrow Holder required of Seller pursuant to the provisions of Paragraph 8 of this Agreement.

(ix) Financing. Buyer shall have obtained non-recourse financing from a lender acceptable to Buyer in the amount of seventy-five percent (75%) of the Purchase Price, upon the following terms and conditions: (A) a maturity date at least six (6) months after the date of the closing of the loan, with an option to renew for up to an additional one-hundred eighty (180) days; (B) interest only payments commencing on the first day of the month following the date of the closing of the loan, and continuing on a monthly basis; (C) an interest rate of eight percent (8%) per annum; and (d) other terms

satisfactory to Buyer in its reasonable discretion.

(b) Conditions to Seller's Obligations. For the benefit of Seller, the Close of Escrow shall be conditioned upon the timely performance by Buyer of all of the obligations required by the terms of this Agreement to be performed by Buyer (or Seller's waiver thereof, it being agreed that Seller may waive such condition), including without limitation, the following:

Accuracy of Representations. All of the representations and warranties of Buyer contained in this Agreement shall have been true and correct in all material respects when made, and shall be true and correct in all material respects as of the Close of Escrow with the same effect as if made at the Close of Escrow.

Performance. Buyer shall have performed, observed and complied with all material covenants, agreements and conditions required by this Agreement to be performed, observed and complied with on its part prior to or as of the Close of Escrow hereunder.

Documents and Deliveries. All instruments and documents required on Buyer's part to effectuate the Close of Escrow and the transactions contemplated hereby shall be delivered to Seller or the Escrow Holder, as required hereby, shall be in form and substance consistent with the requirements herein, and all funds to be deposited into the Escrow pursuant hereto shall have been timely deposited by the responsible party(ies).

Short Term Lease. Upon the Close of Escrow, Buyer shall have executed the Short Term Lease in the form agreed to by Buyer and Seller prior to the expiration date of the Contingency Period.

Personal Property List. Prior to the expiration of the Contingency Period, Buyer and Seller shall have agreed to the lists described in Paragraph 7(a)(vi) above.

Failure of Conditions. If any conditions precedent to Seller's obligations as set forth in this Paragraph 7(b) are not timely satisfied or waived in writing by Seller at or prior to the times prescribed therein, including, but not limited to, timely delivery of the Additional Deposit into the Escrow by Buyer, then Seller shall have the option, exercisable by written notice delivered to Buyer, of declining to proceed with the Close of Escrow. In such event, except as expressly set forth herein, all rights, obligations and liabilities of Buyer and Seller under this Agreement shall terminate (except for any obligations or liabilities under this Agreement which specifically set forth that such obligations or liabilities shall survive the termination of this Agreement or for any claim that either party may have against the other party for a default under this Agreement that caused the condition to be unfilled) and (a) all documentation delivered to Buyer pursuant hereto shall be returned to Seller, (b) all third party reports obtained by Buyer with respect to the Property shall be delivered to Seller without representation or warranty and at no cost to Seller, if requested by Seller, and (c) the Deposit shall be retained by Seller.

8. Deposits by Seller. At least one (1) business day prior to the Close of Escrow, Seller shall deposit or cause to be deposited with Escrow Holder the following documents and instruments:

(a) Grant Deed. The Grant Deed conveying the Real Property to Buyer or its title nominee, as provided in Paragraph 21 hereof, duly executed as appropriate by Seller, acknowledged and in recordable form in the form attached hereto as Exhibit "B";

(b) Contracts. Any and all original Contracts and all warranties related thereto, if any, approved by Buyer in accordance with Paragraph 7(a) hereof;

(c) Assignment of Contracts and Assumption Agreement. Assignment of Contracts and Assumption Agreement ("Assignment of Contracts"), duly executed by Seller, in the form attached



hereto as Exhibit "C", pursuant to which Seller shall assign to Buyer all of Seller's right, title and interest in, under and to the Contracts which Buyer approved and elected to assume during the Contingency Period and any and all warranties relative thereto;

(d) Bill of Sale. Bill of Sale ("Bill of Sale"), duly executed by Seller, in the form attached hereto as Exhibit "D", conveying all of Seller's right, title and interest in and to the Personal Property;

(e) Transferor's Certification of Non-Foreign Status. Transferor's Certification of Non-Foreign Status, for both federal and state, in the form attached hereto as Exhibit "E", duly executed by Seller ("Seller's Certificate");

(f) General Assignment. General Assignment ("General Assignment"), duly executed by Seller, in the form attached herein as Exhibit "F", conveying all of Seller's right, title and interest in and to the Intangible Personal Property;

(g) Short Term Lease. Counterpart of the Short Term Lease, duly executed by Seller; and

(h) Other Instruments. Such other instruments and documents as are described in Paragraph 23(b) herein.

9. Deposits by Buyer. Buyer shall deposit or cause to be deposited with Escrow Holder in Immediately Available Funds, the funds which are to be applied towards the payment of the Purchase Price in the amounts and at the times designated in Paragraph 3 above (as reduced by the prorations and credits hereinafter provided). In addition, Buyer shall deposit with Escrow Holder prior to the Close of Escrow the following documents and instruments:

(a) Assignment of Contracts. Counterpart of the Assignment of Contracts, duly executed by Buyer;

(b) General Assignment. Counterpart of the General Assignment, duly executed by Buyer;

(c) Short Term Lease. Counterpart of the Short Term Lease, duly executed by Buyer; and

(d) Other Instruments. Such other instruments and documents as are described in Paragraph 23(b) herein.

10. Costs and Expenses. The cost and expense of the standard CLTA portion of the Title Policy, covering the Purchase Price for the Property, shall be paid by Seller, and the cost and expense of any additional costs for extended coverages or endorsements, if any, shall be paid by Buyer. The escrow fee of Escrow Holder shall be shared equally by Seller and Buyer. Seller shall pay all documentary transfer taxes payable in connection with the recordation of the Grant Deed. Buyer and Seller shall pay, respectively, the Escrow Holder's customary charges to buyers and sellers for document drafting, recording and miscellaneous charges. If, as a result of no fault of Buyer or Seller, Escrow fails to close, Buyer and Seller shall share equally all of Escrow Holder's fees and charges.

11. Prorations. The following prorations between Seller and Buyer shall be made by Escrow Holder computed as of the Close of Escrow:

(a) Taxes. Real and personal property taxes and assessments on the Property shall be prorated on the basis that Seller is responsible for (i) all such taxes for the fiscal year of the applicable taxing authorities occurring prior to the "Current Tax Period" (as hereinafter defined) and (ii) that portion of such taxes for the Current Tax Period determined on the basis of the number of days which have elapsed from the first day of the Current Tax Period to the Close of Escrow, inclusive, whether or not the same shall be payable prior to the Close of Escrow. The phrase "Current Tax Period" refers to the fiscal year of the applicable taxing authority in which the Close of Escrow occurs. In the event that as of the Close of Escrow the actual tax bills for the year or years in question are not available and the amount of taxes to be prorated as aforesaid cannot be ascertained, then rates and assessed valuation of the previous year, with known changes, shall be used, and when the actual amount of taxes and assessments for the year or years in question shall be determinable, then such taxes and assessments will be re prorated between the parties to reflect the actual amount of such taxes and assessments.

(b) Utilities. Gas, water, electricity, heat, fuel, sewer and other utilities and the operating expenses relating to the Property shall be prorated as of the Close of Escrow. If the parties are unable to obtain final meter readings as of the Close of Escrow, such expenses shall be estimated as of the Close of Escrow on the basis of the prior operating history of the Property.

At least one (1) business day prior to the Close of Escrow, the parties shall agree upon all of the prorations to be made and submit a statement to Escrow Holder setting forth the same. In the event that any prorations, apportionments or computations

made under this Paragraph 11 shall require final adjustment,  
then the parties shall make the appropriate adjustments promptly  
when

accurate information becomes available and either party hereto shall be entitled to an adjustment to correct the same. Any corrected adjustment or proration shall be paid in cash to the party entitled thereto.

12. Disbursements and Other Actions by Escrow Holder. Upon the Close of Escrow, Escrow Holder shall promptly undertake all of the following in the following manner:

(a) Prorations. Prorate all matters referenced in Paragraph 11 based upon the statement delivered into Escrow signed by the parties;

(b) Recording. Cause the Grant Deed and any other documents which the parties hereto may mutually direct, to be recorded in the Official Records in the order directed by the parties;

(c) Funds. Disburse from funds deposited by Buyer with Escrow Holder towards payment of all items chargeable to the account of Buyer pursuant hereto in payment of such costs and disburse the balance of such funds, if any, to Buyer;

(d) Documents to Seller. Deliver to Seller the Purchase Price in Immediately Available Funds, counterparts of the Assignment of Contracts, the General Assignment and the Short Term Lease executed by Buyer;

(e) Documents to Buyer. Deliver to Buyer originals of the Contracts, the Bill of Sale, the Seller's Certificate, counterparts of the Assignment of Contracts, the General Assignment and the Short Term Lease executed by Seller, and any other documents which are to be delivered to Buyer hereunder, and, when issued, the Title Policy; and

(f) Title Policy. Direct the Title Company to issue the Title Policy to Buyer.

13. Covenants of Seller. Seller hereby covenants with Buyer, as

follows:

(a) From and after the date of this Agreement, Seller shall not, without the prior written consent of Buyer, which consent Buyer may withhold in its sole, absolute and subjective discretion, enter into any maintenance contract, service contract, listing agreement or any other contract affecting or relating to the Property which will survive the Close of Escrow or will otherwise affect the use, operation or enjoyment of the Property after the Close of Escrow;

(b) All insurance policies carried by Seller with respect to the Property and in effect as of the date of this Agreement shall remain continuously in full force and effect from the date of this Agreement through the day upon which the Close of Escrow occurs;

(c) From and after the date of this Agreement, Seller shall not amend, modify, alter or supplement any Contract which is approved by Buyer pursuant to Paragraph 7(a) hereof. Further, Seller hereby covenants and agrees that it shall terminate on or before the Close of Escrow any Contract which Buyer disapproves in accordance with Paragraph 7(a) hereof;

(d) From the date of this Agreement until the Close of Escrow, Seller hereby covenants and agrees that it shall (i) operate and manage the Property in the same manner Seller currently maintains the Property, (ii) maintain all present services and amenities, (iii) maintain the Property in good condition, repair and working order, (iv) keep on hand sufficient materials, supplies, equipment and other personal property for the efficient operation and management of the Property in a manner customary for similarly situated properties, (v) perform when due, and otherwise comply with, all of Seller's obligations and duties under the Contracts approved by Buyer in accordance with Paragraph 7(a) hereof, and (vi) maintain the Property in accordance with all applicable laws, ordinances, rules and regulations affecting the Property. Except for the personal property to be retained by Seller as provided

in Paragraph 7(a)(vi) above, none of the Personal Property shall be removed from the Real Property, unless replaced by unencumbered personal property of equal or greater utility and value. Except for the personal property to be retained by Seller as provided in Paragraph 7(a)(vi) above, all Personal Property and Intangible Personal Property shall be conveyed to Buyer by Seller at the Close of Escrow free from any liens, encumbrances or security interests of any kind or nature;

(e) After the date of this Agreement, Seller shall not alienate, lien, encumber or otherwise transfer all or any portion of the Property (other than to Buyer at the Close of Escrow);

(f) From and after the date of this Agreement, Seller shall not enter into any lease

without the prior written consent of Buyer, which consent shall not be unreasonably withheld.

(g) Upon Buyer's request for a period of one (1) year after the Close of Escrow, Seller shall make all of Seller's records with respect to the Property available to Buyer for inspection, copying and audit by Buyer's designated employees, accountants or consultants; and

(h) Seller shall promptly notify Buyer of any change in any condition with respect to the Property or of any event or circumstance which makes any representation or warranty of Seller to Buyer under this Agreement materially untrue or misleading, and of any covenant of Seller under this Agreement which Seller will be incapable of performing or less likely to perform.

14. Seller's Representations and Warranties. In consideration of Buyer entering into this Agreement and as an inducement to Buyer to purchase the Property, Seller makes the following covenants, representations and warranties, each of which is material and is being relied upon by Buyer (and the continued truth and accuracy of which shall constitute a condition precedent to Buyer's obligations hereunder):

(a) Representations Regarding Seller's Authority

(i) Seller has the legal power, right and authority to enter into this Agreement and the instruments referenced herein, and to consummate the transaction contemplated hereby;

(ii) All requisite action (corporate, trust, partnership or otherwise) has been taken by Seller in connection with the entering into this Agreement, the instruments referenced herein, and the consummation of the transaction contemplated hereby. No consent of any partner, shareholder, trustee, trustor, beneficiary, creditor, investor, judicial or administrative body, governmental authority or other party is required;

(iii) The individuals executing this Agreement and the instruments referenced herein on behalf of Seller and the partners of Seller, if any, have the legal power, right, and actual authority to bind Seller to the terms and conditions hereof and thereof;

(iv) This Agreement and all documents required hereby to be executed by Seller are and shall be valid, legally binding obligations of and enforceable against Seller in accordance with their terms; and

(v) Neither the execution and delivery of this Agreement and the documents and instruments referenced herein, nor the incurrence of the obligations set forth herein, nor the consummation of the transaction contemplated herein, nor compliance with the terms of this Agreement and the documents and instruments referenced herein conflict with or result in the material breach of any terms, conditions or provisions of, or constitute a default under, any bond, note, or other evidence of indebtedness or any contract, indenture, mortgage, deed of trust, loan, partnership agreement, lease or other agreement or instrument to which Seller is a party or affecting the Property;

(b) Threatened Actions. To Seller's actual knowledge, there are, and at the Close of Escrow there will be, no pending actions, suits, arbitrations, claims or proceedings, at law, in equity or otherwise, affecting, or which may affect, all or any portion of the Property or in which Seller is or will be a party by reason of Seller's ownership of the Property, including, but not limited to, judicial, municipal or administrative proceedings in eminent domain, collection actions, alleged building code violations, health and safety violations, federal, state or local agency actions regarding environmental matters, federal environmental protection agency or zoning violations, personal injuries or property damages alleged to have occurred at the Property or by reason of the condition or use of or

construction on the Property. Seller is not aware of the existence of any threatened or contemplated actions, claims or proceedings or of the existence of any facts which might give rise to any such actions, claims or proceedings;

(c) Compliance with Law. To Seller's actual knowledge, all applicable laws, ordinances, rules, requirements, regulations, building codes and environmental rules of any governmental agency, body or subdivision thereof bearing on the Property and the construction of the Improvements have been complied with;

(d) Agreements. To Seller's actual knowledge, there are no agreements (whether oral or written), affecting or relating to the right of any party with respect to the possession of the

Property, or any portion thereof, which are obligations which will affect the Property or any portion thereof subsequent to the recordation of the Grant Deed except as set forth in the Contracts provided to and approved by Buyer in accordance with Paragraph 7(a)(ii) hereof, or as may be reflected in the Approved Condition of Title;

(e) Documents True. To Seller's actual knowledge, all documents delivered by Seller to Buyer pursuant to this Agreement are true, accurate, correct and complete copies of originals and any and all information prepared by Seller or at Seller's direction and supplied to Buyer by Seller in accordance with Paragraph 7(a) hereof are true, accurate, correct and complete;

(f) Contracts. To Seller's actual knowledge, there are no maintenance contracts, service contracts or any other contracts (whether oral or written) affecting or relating to the Property which will survive the Close of Escrow except as approved by Buyer in accordance with Paragraph 7(a)(ii) hereof. At the Close of Escrow, there will be no outstanding contracts entered into by Seller for the construction or repair of any improvements to the Real Property which have not been fully paid for, and Seller shall cause to be discharged all mechanics' and materialmen's liens arising from any labor or materials furnished to the Real Property prior to the Close of Escrow;

(g) Hazardous Wastes. To Seller's actual knowledge, there is no asbestos or materials containing asbestos incorporated into any of the Improvements. To Seller's actual knowledge, the Property is not in violation of any federal, state or local law, ordinance or regulation relating to industrial hygiene or to the environmental conditions on, under or about the Property or the Improvements including, but not limited to, soil and groundwater condition. Seller further represents and warrants that, except as set forth in Exhibit "G" attached hereto, neither Seller nor, to Seller's actual knowledge, any third party has used, generated, manufactured, stored or disposed of on, under or about the Property or transported to or from the Property any flammable explosives, radioactive materials, hazardous wastes, toxic substances or related materials ("Hazardous Materials"). Seller has no knowledge of the presence, use, treatment, storage, release or disposal of any Hazardous Materials at, on, upon, beneath or about the Land or the Improvements. For purposes of this subparagraph, the term Hazardous Materials shall include, but not be limited to, asbestos, petroleum and any petroleum by-products, urea formaldehyde, foam insulation, polychlorinated biphenyls, and any other substance which is a "Hazardous Substance" under California Health and Safety Code Section 25316 and in the regulations adopted and publications promulgated pursuant to said statute and any amendments thereto;

(h) Structural, Mechanical and Electrical Defects. To Seller's actual knowledge, there are no physical or mechanical defects or deficiencies in the condition of the Property, including, but not limited to, the roofs, exterior walls or structural components of the Improvements and the heating, air conditioning, plumbing, ventilating, utility, sprinkler and other mechanical and electrical systems, apparatus and appliances located on the Property or in the Improvements and all such items are in good operating condition and repair;

(i) No Prior Transfer. Seller has not previously sold, transferred or conveyed the Property and Seller has not entered into any executory contracts for the sale of the Property (other than this Agreement), nor do there exist any rights of first refusals or options to purchase the Property;

(j) Insurance Notices. Seller has not received any notice from any of Seller's insurance carriers of any defects or inadequacies in the Property, or any portion thereof, which would adversely affect the insurability of the Property or the cost of any such insurance. There are no pending insurance claims with respect to all or any portion of the Property;

(k) Representations and Warranties at Closing. The representations and warranties of Seller set forth in this



Agreement shall be deemed to be remade and restated by Seller on and as of the Close of Escrow and shall survive the Close of Escrow for a period of one (1) year.

(1) Definition of Seller's Actual Knowledge. For all purposes under this Agreement, the phrase "actual knowledge" of Seller or the equivalent means the actual current (and not constructive or imputed) knowledge, without independent investigation or inquiry or any duty of independent investigation or inquiry, of John Allen, the VP of Finance and CFO of COHU, Inc. All representations and warranties made herein, and elsewhere in this Agreement or exhibits attached hereto, are subject to, and qualified by, information and disclosures contained in the doc-

uments and reports delivered by Seller to Buyer, such information discovered by Buyer prior to the expiration of the Contingency Period, or as otherwise disclosed in writing by Seller to Buyer prior to the end of the Contingency Period.

(m) Seller's Disclaimer. Buyer acknowledges and agrees that Buyer is a sophisticated, knowledgeable investor in real property and is acquiring the Property solely upon its own judgment; and not upon any statement, representation or warranty by Seller, or any agent or representative of Seller, which is not expressly set forth in this Agreement. Except for the express representations and warranties of Seller set forth herein, Buyer acknowledges and agrees that the sale of the Property to Buyer is made without any warranty or representation of any kind by Seller, either express or implied, with respect to any aspect, portion or component of the Property, including: (i) the physical condition, nature or quality of the Property, including the quality of the soils on and under the Property and the quality of the labor and materials included in any buildings or other improvements, fixtures, equipment or personal property comprising a portion of the Property; (ii) the fitness of the Property for any particular purpose; (iii) the presence or suspected presence of hazardous materials on, in, under or about the Property (including the soils and groundwater on and under the Property); or (iv) existing or proposed governmental laws or regulations applicable to the Property, or the further development or change in use thereof, including environmental laws and laws or regulations dealing with zoning or land use. Buyer further agrees and acknowledges that, as of the Closing, Buyer shall have made such feasibility studies, investigations, environmental studies, engineering studies, inquiries of governmental officials, and all other inquiries and investigations, which Buyer shall deem necessary to satisfy itself as to the condition, nature and quality of the Property and as to the suitability of the Property for Buyer's purposes. Buyer further agrees and acknowledges that, in purchasing the Property, Buyer shall rely entirely on its own investigation, examination and inspection of the Property and its analysis and evaluation of the property documents made available by Seller to Buyer pursuant to Paragraph 7(a)(ii), and not upon any representation or warranty of Seller, or any agent or representative of Seller, which is not set forth in Paragraph 14. THEREFORE, EXCEPT FOR SELLER'S REPRESENTATIONS AND WARRANTIES SET FORTH IN PARAGRAPH 14, BUYER AGREES THAT, IN CONSUMMATING THE PURCHASE OF THE PROPERTY PURSUANT TO THIS AGREEMENT, BUYER SHALL ACQUIRE THE PROPERTY IN ITS THEN CONDITION, "AS IS, WHERE IS" AND WITH ALL FAULTS, AND, SUBJECT TO SELLER'S REPRESENTATIONS AND WARRANTIES SET FORTH IN PARAGRAPH 14, SOLELY IN RELIANCE ON BUYER'S OWN INVESTIGATION, EXAMINATION, INSPECTION, ANALYSIS AND EVALUATION OF THE PROPERTY.

(n) Buyer's Release of Seller. Subject to all the terms and conditions of this Paragraph 14, Buyer hereby waives, releases and forever discharges Seller and its officers, directors, employees and agents from any and all claims, actions, causes of action, demands, liabilities, damages, costs, expenses or compensation whatsoever, whether direct or indirect, known or unknown, foreseeable or unforeseeable, which Buyer may have at the Closing or which may arise in the future on account of or in any way arising out of or connected with: (i) the physical condition, nature or quality of the Property (including the soils and groundwater on and under the Real Property); (ii) the condition of title to the Property; and (iii) the presence or release in, under, on or about the Property (including the soils and groundwater on and under the Real Property) of any hazardous materials. Buyer hereby waives the protection of California Civil Code Section 1542, which reads as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

Buyer's Initials: \_\_\_\_\_

However, the foregoing provisions of this Paragraph 14(n) shall

not serve to release Seller from any breach of the express representations and warranties set forth in Paragraph 14.

15. Buyer's Covenants, Representations and Warranties. In addition to any express agreements of Buyer contained elsewhere in this Agreement, Buyer hereby represents and warrants to, and covenants with, Seller as follows:

(a) Organization. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of California, and is qualified to do business and is in good standing under the laws of the State of California.

(b) Authorization. Buyer has or will have the legal power, right and authority to enter into this Agreement and the instruments referenced herein, and to consummate the transactions contemplated hereby. Each individual executing this Agreement and the instruments referenced herein on behalf of Buyer has or will have the legal power, right and actual authority to execute this Agreement and to bind Buyer to the terms and conditions hereof and thereof.

(c) Litigation. There are no assignments for the benefit of creditors, insolvency, bankruptcy, reorganization or other similar proceedings pending (or, to the Buyer's current actual knowledge, threatened or contemplated) against Buyer nor are any of such proceedings contemplated by Buyer.

(d) No Violations. The execution, delivery and performance by Buyer of this Agreement, or any other document, agreement or instrument referred to herein, does not and will not violate any existing order or decree of any court, arbitrator or governmental agency, or any existing indenture, agreement or any other instrument to which Buyer is a party or by which Buyer is bound, or be in conflict with, result in the breach of or constitute a default under any such indenture, agreement or other instrument.

(e) Survival. The representations and warranties of Buyer set forth in Paragraph 15 are true and correct on and as of the date of this Agreement, and shall be true and correct on and as of the date of the Close of Escrow. The representations and warranties of Buyer set forth herein shall survive for a period of one (1) year.

(f) New Information. To the extent that Buyer becomes aware of any information after the execution date that would affect the accuracy of the representations and warranties given by Buyer pursuant to this Paragraph 15, Buyer shall promptly notify Seller of such information.

#### 16. Remedies

(a) LIQUIDATED DAMAGES. PROVIDED BUYER HAS NOT ELECTED TO TERMINATE THIS AGREEMENT PURSUANT TO ANY OF BUYER'S RIGHTS TO DO SO CONTAINED HEREIN, IF AFTER THE EXPIRATION OF THE CONTINGENCY PERIOD BUYER COMMITS A DEFAULT UNDER THIS AGREEMENT AND THE CLOSE OF ESCROW FAILS TO OCCUR SOLELY BY REASON OF SUCH DEFAULT, THEN ESCROW HOLDER MAY BE INSTRUCTED BY SELLER TO CANCEL THE ESCROW AND SELLER SHALL THEREUPON BE RELEASED FROM ITS OBLIGATIONS HEREUNDER. BUYER AND SELLER AGREE THAT BASED UPON THE CIRCUMSTANCES NOW EXISTING, KNOWN AND UNKNOWN, IT WOULD BE IMPRACTICAL OR EXTREMELY DIFFICULT TO ESTABLISH SELLER'S DAMAGES BY REASON OF BUYER'S DEFAULT. ACCORDINGLY, BUYER AND SELLER AGREE THAT IT WOULD BE REASONABLE AT SUCH TIME TO AWARD SELLER "LIQUIDATED DAMAGES" EQUAL TO THE AMOUNT OF THE DEPOSIT PREVIOUSLY PLACED INTO ESCROW BY BUYER PURSUANT TO PARAGRAPH 3 HEREOF.

SELLER AND BUYER ACKNOWLEDGE AND AGREE THAT THE FOREGOING AMOUNT IS REASONABLE AS LIQUIDATED DAMAGES AND SHALL BE SELLER'S SOLE AND EXCLUSIVE REMEDY IN LIEU OF ANY OTHER RELIEF, RIGHT OR REMEDY, AT LAW OR IN EQUITY, TO WHICH SELLER MIGHT OTHERWISE BE ENTITLED BY REASON OF BUYER'S DEFAULT UNDER THIS AGREEMENT. ACCORDINGLY, IF BUYER COMMITS A DEFAULT UNDER THIS AGREEMENT AND THE CLOSE OF ESCROW FAILS TO OCCUR SOLELY BY REASON OF SUCH DEFAULT, SELLER MAY INSTRUCT THE ESCROW HOLDER TO CANCEL THE ESCROW, WHEREUPON SELLER SHALL BE RELIEVED FROM ALL LIABILITY HEREUNDER, AND, PROMPTLY FOLLOWING



ESCROW HOLDER'S RECEIPT OF SUCH INSTRUCTION, ESCROW HOLDER SHALL (i) CANCEL THE ESCROW, AND (ii) DISBURSE TO SELLER THE DEPOSIT. WITHOUT LIMITING THE FOREGOING PROVISIONS OF THIS PARAGRAPH, SELLER WAIVES ANY AND ALL RIGHTS WHICH SELLER OTHERWISE WOULD HAVE HAD UNDER CALIFORNIA CIVIL CODE SECTION 3389 TO SPECIFICALLY ENFORCE THIS AGREEMENT. IF THE CLOSE OF ESCROW FAILS TO OCCUR FOR ANY REASON OTHER THAN BUYER'S DEFAULT UNDER THIS AGREEMENT, THEN ESCROW HOLDER SHALL IMMEDIATELY RETURN TO BUYER THE DEPOSIT, TOGETHER WITH ALL INTEREST ACCRUED THEREON. SELLER AND BUYER ACKNOWLEDGE THAT THEY HAVE READ AND UNDERSTAND THE PROVISIONS OF THIS PARAGRAPH 16 AND BY THEIR INITIALS IMMEDIATELY BELOW AGREE TO BE BOUND BY ITS TERMS. NOTWITHSTANDING THE FOREGOING AND OTHER PROVISIONS IN THIS AGREEMENT TO THE CONTRARY, THIS PARAGRAPH 16 SHALL IN NO WAY LIMIT OR RESTRICT SELLER'S RIGHT TO RECOVERY OF ANY AMOUNT DUE SELLER UNDER PARAGRAPH 7(a)(iii) OR PARAGRAPH 20.

Seller's Initials

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Buyer's Initials

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(b) Buyer's Remedies. Buyer and Seller hereby agree that, if the sale contemplated by this Agreement is not completed as herein provided by reason of any default of Seller hereunder, then in addition to the return of the Deposit and all interest accrued thereon, Buyer shall be entitled to pursue any remedy available under this Agreement or available at law or in equity, including, without limitation, the right to specifically enforce this Agreement.

#### 17. Damage or Condemnation Prior to Closing

(a) In the event that prior to the Close of Escrow, the Real Property, or any portion thereof, is destroyed or materially damaged, Buyer shall have the right, exercisable by giving written notice to Seller within fifteen (15) days after receipt of written notice of such damage or destruction, either (i) to terminate this Agreement, in which event the Deposit and all interest accrued thereon shall be immediately returned to Buyer, any other money or documents in Escrow shall be returned to the party depositing the same, and neither party hereto shall have any further rights or obligations hereunder, or (ii) to accept the Real Property in its then condition and to proceed with the consummation of the transaction contemplated by this Agreement, with an abatement or reduction in the Purchase Price equal to the amount of the deductible for the applicable insurance coverage, and to receive an assignment of all of Seller's rights to any insurance proceeds payable by reason of such damage or destruction, or if the casualty is not insured, an abatement or reduction in the Purchase Price equal to the cost to repair such damage, which credit shall in no event be more than One Hundred Thousand Dollars (\$100,000.00). If Buyer elects to proceed under clause (ii) above, Seller shall not compromise, settle or adjust any claims to such proceeds without Buyer's prior written consent, which consent Buyer may withhold in its sole, absolute and subjective discretion.

(b) In the event that prior to the Close of Escrow there is any non-material damage to the Real Property, or any part thereof, Buyer shall accept the Real Property in its then condition with an abatement or reduction in the Purchase Price equal to the amount of the deductible for the applicable insurance coverage (or the cost to repair such damage if uninsured) and proceed with the transaction contemplated by this Agreement, in which event Buyer shall be entitled to an assignment of all of Seller's rights to any insurance proceeds payable by reason of such damage or destruction. In such event, Seller shall not compromise, settle or adjust any claims to such proceeds without Buyer's prior written consent, which consent Buyer may withhold in its sole, absolute and subjective discretion.

(c) In the event that prior to the Close of Escrow, all or any material portion of the Real Property is subject to a taking by a public or governmental authority, Buyer shall have

the right, exercisable by giving written notice to Seller within fifteen (15) days after receiving written notice of such taking, either (i) to terminate this Agreement, in which event the Deposit and all

interest accrued thereon shall be immediately returned to Buyer, any other money or documents in Escrow shall be returned to the party depositing the same, and neither party hereto shall have any further rights or obligations hereunder, or (ii) to accept the Real Property in its then condition, without a reduction in the Purchase Price, and to receive an assignment of all of Seller's rights to any condemnation award or proceeds payable by reason of such taking. If Buyer elects to proceed under clause (ii) above, Seller shall not compromise, settle or adjust any claims to such award without Buyer's prior written consent, which consent Buyer may withhold in its sole, absolute and subjective discretion.

(d) In the event that prior to the Close of Escrow, any non-material portion of the Real Property is subject to a taking by any public or governmental authority, Buyer shall accept the Real Property in its then condition and proceed with the consummation of the transaction contemplated by this Agreement, in which event Buyer shall be entitled to an assignment of all of Seller's rights to any award or proceeds payable in connection with such taking. In the event of any such non-material taking, Seller shall not compromise, settle or adjust any claims to such award without Buyer's prior written consent, which consent Buyer may withhold in its sole, absolute and subjective discretion.

(e) For purposes of this Paragraph 17, damage to the Real Property or a taking of a portion thereof shall be deemed to involve a material portion thereof if the estimated cost of restoration or repair, as reasonably estimated by Buyer, of such damage or the amount of the condemnation award with respect to such taking shall exceed One Hundred Thousand Dollars (\$100,000.00).

(f) Seller agrees to give Buyer prompt written notice of any taking of, proposed taking of, damage to or destruction of the Real Property.

18. Notices. All notices or other communications required or permitted hereunder shall be in writing, and shall be personally delivered, sent by overnight mail (Federal Express or the like) or sent by registered or certified mail, postage prepaid, return receipt requested, telegraphed, delivered or sent by telex, telecopy, facsimile, fax or cable and shall be deemed received upon the earlier of (i) if personally delivered, the date of delivery to the address of the person to receive such notice, (ii) if sent by overnight mail, the business day following its deposit in such overnight mail facility, (iii) if mailed, four (4) business days after the date of posting by the United States post office, (iv) if given by telegraph or cable, when delivered to the telegraph company with charges prepaid, or (v) if given by telex, telecopy, facsimile or fax, when sent. Any notice, request, demand, direction or other communication sent by cable, telex, telecopy, facsimile or fax must be confirmed within forty-eight (48) hours by letter mailed or delivered in accordance with the foregoing.

To Buyer: c/o Trammell Crow So. Cal. Properties, Inc.  
4250 Executive Square, Suite 200  
La Jolla, CA 92037  
Attention: Dorcey B. Abshier  
Phone No. (858) 526-2649  
Fax No. (858) 526-2601

With a copy to: Jeffer, Mangles, Butler & Marmaro LLP  
2121 Avenue of the Stars, Tenth Floor  
Los Angeles, California 90067-5010  
Attention: Keith Elkins  
Phone No: (310) 785-5353  
Fax No. (310) 203-0567

To Seller: COHU, INC.  
5755 Kearny Villa Road  
San Diego, California 92123  
Attention: John H. Allen  
Phone No. (858) 541-5182  
Fax No. (858) 277-9412





With a copy to: Gray Cary Ware & Freidenrich LLP  
401 B Street, Suite 1700  
San Diego, California 92101-4297  
Attention: Karen M. ZoBell, Esq.  
Phone No. (619) 699-3474  
Fax No. (619) 236-1048

To Escrow Holder: Chicago Title Company  
925 B Street  
San Diego, California 92101  
Attention: Lori Brandt  
Phone No. (619) 239-6081  
Fax No. (619) 544-6229

Notice of change of address shall be given by written notice in the manner detailed in this Paragraph. Rejection or other refusal to accept or the inability to deliver because of changed address of which no notice was given shall be deemed to constitute receipt of the notice, demand, request or communication sent.

19. Brokers. Upon the Close of Escrow, Seller shall pay a real estate brokerage commission to CB Richard Ellis, with respect to this transaction in accordance with Seller's separate agreement with said broker, and Seller hereby agrees to indemnify, protect, defend (with counsel chosen by Buyer) and hold Buyer free and harmless from and against any and all commissions or other claims such broker may assert in connection with the parties entering into, or consummating the transactions contemplated by, this Agreement. If any additional claims for broker's or finders' fees for the consummation of this Agreement arise, then Buyer hereby agrees to indemnify, protect, save harmless and defend Seller from and against such claims if they are based upon any statement, representation or agreement made by Buyer, and Seller hereby agrees to indemnify, protect, save harmless and defend Buyer from and against such claims if they are based upon any statement, representation or agreement made by Seller.

20. Legal Fees. In the event of the bringing of any action or suit by a party hereto against another party hereunder by reason of any breach of any of the covenants or agreements or any inaccuracies in any of the representations and warranties on the part of the other party arising out of this Agreement, then in that event, the prevailing party in such action or dispute, whether by final judgment or out of court settlement, shall be entitled to have and recover of and from the other party all costs and expenses of suit, including actual attorneys' fees. Any judgment or order entered in any final judgment shall contain a specific provision providing for the recovery of all costs and expenses of suit, including actual attorneys' fees (collectively "Costs") incurred in enforcing, perfecting and executing such judgment. For the purposes of this paragraph, Costs shall include, without limitation, attorneys' fees, costs and expenses incurred in the following: (i) postjudgment motions; (ii) contempt proceeding; (iii) garnishment, levy, and debtor and third party examination; (iv) discovery; and (v) bankruptcy litigation.

21. Assignment. Seller may not assign, transfer or convey its rights or obligations under this Agreement without the prior written consent of Buyer; provided, however, that Seller may assign, transfer or convey its rights or obligations under this Agreement without Buyer's consent to an entity affiliated with Seller or to a new entity which Seller is a member, partner or manager provided that Seller delivers to Buyer written notice of any such transfer. Any assignment shall be effective only if Seller's assignee assumes in writing all of Seller's obligations hereunder; provided, however, Seller shall in no event be released from its obligations hereunder by reason of such assignment. Buyer, without being relieved of liability hereunder and without obtaining Seller's consent, shall have the right to assign its rights and obligations hereunder to an entity affiliated with Buyer or to a new entity in which Buyer is a member, partner or manager or with who Buyer (or any affiliate thereof) has entered into a development services agreement, a property management agreement or other agreement of a similar nature with respect to the Property or any portion thereof; provided that Buyer delivers written notice of such transfer to Seller. Any other assignments requested by Buyer shall be subject to the prior approval of Seller, which approval shall not be unreasonably withheld, conditioned or delayed. Buyer hereby acknowledges it is the intent of the Seller to effect an IRC Section 1031 tax deferred exchange which will not delay the closing or cause additional expense to the Buyer. The Seller's rights under this Agreement may be assigned to Investment Property Exchange Services, Inc., a



Qualified Intermediary, for the purpose of completing such an exchange. Buyer agrees to cooperate with the Seller and Investment Property Exchange Services, Inc. in a manner necessary to complete the exchange.

22. Intentionally Omitted

23. Miscellaneous

(a) Survival of Covenants. The covenants, representations and warranties of both Buyer and Seller set forth in this Agreement shall survive the recordation of the Grant Deed and the Close of Escrow for a period of one (1) year.

(b) Required Actions of Buyer and Seller. Buyer and Seller agree to execute such instruments and documents and to diligently undertake such actions as may be required in order to consummate the purchase and sale herein contemplated and shall use their best efforts to accomplish the Close of Escrow in accordance with the provisions hereof.

(c) Computation of Time Periods. If the date upon which the Contingency Period expires, the Closing Date or any other date or time period provided for in this Agreement is or ends on a Saturday, Sunday or federal, state or legal holiday, then such date shall automatically be extended until 5 p.m. Pacific Time of the next day which is not a Saturday, Sunday or federal, state or legal holiday.

(d) Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which, together, shall constitute but one and the same instrument.

(e) Captions. Any captions to, or headings of, the paragraphs or subparagraphs of this Agreement are solely for the convenience of the parties hereto, are not a part of this Agreement, and shall not be used for the interpretation or determination of the validity of this Agreement or any provision hereof.

(f) No Obligations to Third Parties. Except as otherwise expressly provided herein, the execution and delivery of this Agreement shall not be deemed to confer any rights upon, nor obligate any of the parties hereto, to any person or entity other than the parties hereto.

(g) Exhibits and Schedules. The Exhibits and Schedules attached hereto are hereby incorporated herein by this reference for all purposes.

(h) Amendment to this Agreement. The terms of this Agreement may not be modified or amended except by an instrument in writing executed by each of the parties hereto.

(i) Waiver. The waiver or failure to enforce any provision of this Agreement shall not operate as a waiver of any future breach of any such provision or any other provision hereof.

(j) Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

(k) Fees and Other Expenses. Except as otherwise provided herein, each of the parties hereto shall pay its own fees and expenses in connection with this Agreement.

(l) Entire Agreement. This Agreement supersedes any prior agreements, negotiations and communications, oral or written, and contains the entire agreement between Buyer and Seller as to the subject matter hereof. No subsequent agreement, representation, or promise made by either party hereto, or by or to an employee, officer, agent or representative of either party hereto shall be of any effect unless it is in writing and executed by the party to be bound thereby.

(m) Successors and Assigns. Subject to the restrictions set forth in Paragraph 21 hereof, this Agreement shall be binding upon and shall inure to the benefit of the successors and assigns of the parties hereto.

(n) Construction. The parties hereto hereby acknowledge and agree that (i) each party hereto is of equal bargaining strength, (ii) each such party has actively participated in the drafting,

preparation and negotiation of this Agreement, (iii) each such party has consulted with such party's own, independent counsel, and such other professional advisors as such party has deemed appropriate, relative to any and all matters contemplated under this Agreement, (iv) each such party and such party's counsel and advisors have reviewed this Agreement, (v) each such party has agreed to enter into this Agreement following such review and the rendering of such advice, and (vi) any rule of construction to the effect that ambiguities are to be resolved against the drafting parties shall not apply in the interpretation of this Agreement, or any portions hereof, or any amendments hereto.

(o) Consideration. In the event that this Agreement is cancelled by reason of

Buyer's disapproval of any of the matters which are subject to Buyer's approval under Paragraph 7(a) hereof, Buyer shall deliver to Seller any and all reports, studies and the like prepared by or for Buyer with respect to the Property; provided, however, that Buyer shall only be obligated to deliver those reports, studies and the like which are freely transferable by Buyer, at no cost or expense to Buyer. Any and all such reports, studies and the like delivered by Buyer to Seller pursuant to this paragraph shall be accepted by Seller (i) "as-is" without any representation or warranty by Buyer, express, implied or statutory, with respect to any matter pertaining thereto, and (ii) subject to the rights of any other party (other than Buyer) with respect thereto. Seller hereby acknowledges and confirms that such obligation constitutes sufficient consideration for Seller's obligations hereunder.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first written above.

"Buyer"

TC KEARNY VILLA LP,  
a Delaware limited partnership

By: Trammell Crow So. Cal., Inc.,  
a Delaware corporation

By: /s/ Dorsey B. Abshier

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Name: Dorsey B. Abshier

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Title: Vice-President  
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"Seller"

COHU, INC.,  
a Delaware corporation

By: /s/ John H. Allen

Name: John H. Allen

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Title: Vice-President  
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## COHU, INC.

1997 EMPLOYEE STOCK PURCHASE PLAN  
(AS AMENDED)

## 1. ESTABLISHMENT AND PURPOSE

1.1 ESTABLISHMENT. The Cohu, Inc. 1997 Employee Stock Purchase Plan (the "PLAN") is hereby established effective as of February 28, 1997 (the "EFFECTIVE DATE").

1.2 PURPOSE. The purpose of the Plan to provide Eligible Employees of the Participating Company Group with an opportunity to acquire a proprietary interest in the Company through the purchase of Stock. The Company intends that the Plan shall qualify as an "employee stock purchase plan" under Sections 421 and 423 of the Code (including any amendments or replacements of such section), and the Plan shall be so construed.

## 2. DEFINITIONS AND CONSTRUCTION.

2.1 DEFINITIONS. Any term not expressly defined in the Plan but defined for purposes of Section 423 of the Code shall have the same definition herein. Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) "BOARD" means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, "Board" also means such Committee(s).

(b) "CODE" means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(c) "COMMITTEE" means a committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. Unless the powers of the Committee have been specifically limited, the Committee shall have all of the powers of the Board granted herein, including, without limitation, the power to amend or terminate the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law.

(d) "COMPANY" means Cohu, Inc., a Delaware corporation, or any successor corporation thereto.

(e) "COMPENSATION" means, with respect to an Offering Period under the Plan, all amounts paid in cash in the form of base salary, paid during such Offering Period before deduction for any contributions to any plan maintained by a Participating Company and described in Section 401(k) or Section 125 of the Code. Compensation shall not include payments of overtime, bonuses, commissions, other incentive compensation, reimbursements of expenses, allowances, long-term disability, workers' compensation or any amount deemed received or any amounts directly or indirectly paid pursuant to the Plan or any other stock purchase or stock option plan.

(f) "ELIGIBLE EMPLOYEE" means an Employee who meets the requirements set forth in Section 5 for eligibility to participate in the Plan.

(g) "EMPLOYEE" means any person treated as an employee (including an officer or a director who is also treated as an employee) in the records of a Participating Company and for purposes of Section 423 of the Code; provided, however, that neither service as a director nor payment of a director's fee shall be sufficient to constitute employment for purposes of the Plan.

(h) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

(i) "FAIR MARKET VALUE" means, as of any date, if there is then a public market for the Stock, the closing price of a share of Stock (or the mean of the closing bid and asked prices of a share of Stock if the Stock is so reported instead) as reported on the National Association of Securities Dealers Automated Quotation ("NASDAQ") System, the Nasdaq National Market System or such other national or regional securities exchange or market system constituting the primary market for the Stock. If the relevant date does not fall on a day on which the Stock is trading on Nasdaq, the Nasdaq National Market System or other national or regional securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Board, in its sole discretion. If there is then no public market for the Stock, the Fair Market Value on any relevant date shall be as determined by the Board without regard to any restriction other than a restriction which, by its terms, will never lapse.

(j) "OFFERING" means an offering of Stock as provided in Section 6.

(k) "OFFERING DATE" means, for any Offering Period, the first day of such Offering Period.

(l) "OFFERING PERIOD" means a period determined in accordance with Section 6.1.

(m) "PARENT CORPORATION" means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.

(n) "PARTICIPANT" means an Eligible Employee participating in the Plan.

(o) "PARTICIPATING COMPANY" means the Company or any Parent Corporation or Subsidiary Corporation which the Board determines should be included in the Plan. The Board shall have the sole and absolute discretion to determine from time to time what Parent Corporations or Subsidiary Corporations shall be Participating Companies.

(p) "PARTICIPATING COMPANY GROUP" means, at any point in time, the Company and all other corporations collectively which are then Participating Companies.

(q) "PURCHASE DATE" means, for any Offering Period, the last day of such Offering Period.



(r) "PURCHASE PRICE" means the price at which a share of Stock may be purchased pursuant to the Plan, as determined in accordance with Section 9.

(s) "PURCHASE RIGHT" means an option pursuant to the Plan to purchase such shares of Stock as provided in Section 8 which may or may not be exercised at the end of an Offering Period. Such option arises from the right of a Participant to withdraw such Participant's accumulated payroll deductions (if any) and terminate participation in the Plan or any Offering therein at any time during a Offering Period.

(t) "STOCK" means the common stock, \$1.00 par value, of the Company, as adjusted from time to time in accordance with Section 4.2.

(u) "SUBSIDIARY CORPORATION" means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

2.2 CONSTRUCTION. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural, the plural shall include the singular, and use of the term "or" shall include the conjunctive as well as the disjunctive.

3. ADMINISTRATION. The Plan shall be administered by the Board, including any duly appointed Committee of the Board. All questions of interpretation of the Plan or of any Purchase Right shall be determined by the Board and shall be final and binding upon all persons having an interest in the Plan or such Purchase Right. Subject to the provisions of the Plan, the Board shall determine all of the relevant terms and conditions of Purchase Rights granted pursuant to the Plan; provided, however, that all Participants granted Purchase Rights pursuant to the Plan shall have the same rights and privileges within the meaning of Section 423(b)(5) of the Code. All expenses incurred in connection with the administration of the Plan shall be paid by the Company.

#### 4. SHARES SUBJECT TO PLAN.

4.1 MAXIMUM NUMBER OF SHARES ISSUABLE. Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be one million (1,000,000) and shall consist of authorized but unissued or reacquired shares of the Stock, or any combination thereof. If an outstanding Purchase Right for any reason expires or is terminated or canceled, the shares of Stock allocable to the unexercised portion of such Purchase Right shall again be available for issuance under the Plan.

4.2 ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE. In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, or in the event of any merger (including a merger effected for the purpose of changing the Company's domicile), sale of assets or other reorganization in which the Company is a party, appropriate adjustments shall be made to the

number and class of shares subject to the Plan, to the Per Offering Share Limit set forth in Section 8.1 and to each Purchase Right and to the Purchase Price.

## 5. ELIGIBILITY.

5.1 EMPLOYEES ELIGIBLE TO PARTICIPATE. Any Employee of a Participating Company is eligible to participate in the Plan except the following:

(a) Employees who are customarily employed by the Participating Company Group for twenty (20) hours or less per week;

(b) Employees who are customarily employed by the Participating Company Group for not more than five (5) months in any calendar year; and

(c) Employees who own or hold options to purchase or who, as a result of participation in the Plan, would own or hold options to purchase, stock of the Company or of any Parent Corporation or Subsidiary Corporation possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of such corporation within the meaning of Section 423(b)(3) of the Code.

5.2 LEASED EMPLOYEES EXCLUDED. Notwithstanding anything herein to the contrary, any individual performing services for a Participating Company solely through a leasing agency or employment agency shall not be deemed an "Employee" of such Participating Company.

## 6. OFFERINGS.

6.1 OFFERING PERIODS. Except as otherwise set forth below, the Plan shall be implemented by sequential Offerings of six (6) months duration (an "OFFERING PERIOD"); provided, however that the first Offering Period shall commence on July 1, 1997 and end on October 30, 1997 (the "INITIAL OFFERING PERIOD"). Subsequent Offerings shall commence on the first days of November and May of each year and end on the last days of the first April and October, respectively, occurring thereafter. Notwithstanding the foregoing, the Board may establish a different term for one or more Offerings or different commencing or ending dates for such Offerings; provided, however, that no Offering may exceed a term of twenty-seven (27) months. An Employee who becomes an Eligible Employee after an Offering Period has commenced shall not be eligible to participate in such Offering but may participate in any subsequent Offering provided such Employee is still an Eligible Employee as of the commencement of any such subsequent Offering. In the event the first or last day of an Offering Period is not a business day, the Company shall specify the business day that will be deemed the first or last day, as the case may be, of the Offering Period.

6.2 GOVERNMENTAL APPROVAL; STOCKHOLDER APPROVAL. Notwithstanding any other provision of the Plan to the contrary, any Purchase Right granted pursuant to the Plan shall be subject to (a) obtaining all necessary governmental approvals or qualifications of the sale or issuance of the Purchase Rights or the shares of Stock and (b) obtaining stockholder approval of the Plan. Notwithstanding the foregoing, stockholder approval shall not be necessary in order to grant any Purchase Right granted in the Plan's Initial Offering Period; provided, however, that the exercise of any such Purchase Right shall be subject to obtaining stockholder approval of the Plan.

## 7. PARTICIPATION IN THE PLAN.

7.1 INITIAL PARTICIPATION. An Eligible Employee shall become a Participant on the first Offering Date after satisfying the eligibility requirements of Section 5 and delivering to the Company's payroll office or other office designated by the Company not later than the close of business for such office on the last business day before such Offering Date (the "SUBSCRIPTION DATE") a subscription agreement indicating the Employee's election to participate in the Plan and authorizing payroll deductions. An Eligible Employee who does not deliver a subscription agreement to the Company's payroll or other designated office on or before the Subscription Date shall not participate in the Plan for that Offering Period or for any subsequent Offering Period unless such Employee subsequently enrolls in the Plan by filing a subscription agreement with the Company by the Subscription Date for such subsequent Offering Period. The Company may, from time to time, change the Subscription Date as deemed advisable by the Company in its sole discretion for proper administration of the Plan.

7.2 CONTINUED PARTICIPATION. A Participant shall automatically participate in each subsequent Offering Period until such time as such Participant (a) ceases to be an Eligible Employee, (b) withdraws from the Plan pursuant to Section 13.2 or (c) terminates employment as provided in Section 14. If a Participant automatically may participate in a subsequent Offering Period pursuant to this Section 7.2, then the Participant is not required to file any additional subscription agreement for such subsequent Offering Period in order to continue participation in the Plan. However, a Participant may file a subscription agreement with respect to a subsequent Offering Period if the Participant desires to change any of the Participant's elections contained in the Participant's then effective subscription agreement.

## 8. RIGHT TO PURCHASE SHARES.

8.1 PURCHASE RIGHT. Except as set forth below, during an Offering Period each Participant shall have a Purchase Right consisting of the right to purchase up to that number of whole shares of Stock arrived at by dividing Twelve Thousand Five Hundred Dollars (\$12,500) by the Fair Market Value of a share of Stock on the Offering Date of such Offering Period. Shares of Stock may only be purchased through a Participant's payroll deductions pursuant to Section 10.

8.2 PRO RATA ADJUSTMENT OF PURCHASE RIGHT. Notwithstanding the foregoing, if the Board shall establish an Offering Period of less than five and one-half (5 1/2) months or more than six and one-half (6 1/2) months in duration, the dollar amount in Section 8.1 shall be determined by multiplying \$2,083.33 by the number of months in the Offering Period and rounding to the nearest whole dollar. For purposes of the preceding sentence, fractional months shall be rounded to the nearest whole month.

9. PURCHASE PRICE. The Purchase Price at which each share of Stock may be acquired in a given Offering Period pursuant to the exercise of all or any portion of a Purchase Right granted under the Plan shall be set by the Board; provided, however, that the Purchase Price shall not be less than eighty-five percent (85%) of the lesser of (a) the Fair Market Value of a share of Stock on the Offering Date of the Offering Period, or (b) the Fair Market Value of a share of Stock on the Purchase Date of the Offering Period. Unless otherwise provided by the Board prior to the commencement of an Offering Period, the Purchase Price for that Offering Period shall be eighty-five percent (85%) of the lesser of (a) the Fair Market Value of a share of

Stock on the Offering Date of the Offering Period, or (b) the Fair Market Value of a share of Stock on the Purchase Date of the Offering Period.

10. ACCUMULATION OF PURCHASE PRICE THROUGH PAYROLL DEDUCTION. Shares of Stock which are acquired pursuant to the exercise of all or any portion of a Purchase Right for an Offering Period may be paid for only by means of payroll deductions from the Participant's Compensation accumulated during the Offering Period. Except as set forth below, the amount of Compensation to be deducted from a Participant's Compensation during each pay period shall be determined by the Participant's subscription agreement.

10.1 COMMENCEMENT OF PAYROLL DEDUCTIONS. Payroll deductions shall commence on the first payday following the Offering Date and shall continue to the end of the Offering Period unless sooner altered or terminated as provided in the Plan.

10.2 LIMITATIONS ON PAYROLL DEDUCTIONS. The amount of payroll deductions with respect to the Plan for any Participant during any pay period shall be in one percent (1%) increments not to exceed ten percent (10%) of the Participant's Compensation for such pay period. Notwithstanding the foregoing, the Board may change the limits on payroll deductions effective as of a future Offering Date, as determined by the Board. Amounts deducted from Compensation shall be reduced by any amounts contributed by the Participant and applied to the purchase of Company stock pursuant to any other employee stock purchase plan qualifying under Section 423 of the Code.

10.3 ELECTION TO INCREASE, DECREASE OR STOP PAYROLL DEDUCTIONS. During an Offering Period, a Participant may elect to increase or decrease the amount deducted or stop deductions from his or her Compensation by filing an amended subscription agreement with the Company on or before the "Change Notice Date." The "CHANGE NOTICE DATE" shall initially be the seventh (7th) day prior to the end of the first pay period for which such election is to be effective; however, the Company may change such Change Notice Date from time to time.

10.4 PARTICIPANT ACCOUNTS. Individual Plan accounts shall be maintained for each Participant. All payroll deductions from a Participant's Compensation shall be credited to such account and shall be deposited with the general funds of the Company. All payroll deductions received or held by the Company may be used by the Company for any corporate purpose.

10.5 NO INTEREST PAID. Interest shall not be paid on sums deducted from a Participant's Compensation pursuant to the Plan.

10.6 COMPANY ESTABLISHED PROCEDURES. The Company may, from time to time, establish or change (a) a minimum required payroll deduction amount for participation in an Offering, (b) limitations on the frequency or number of changes in the rate of payroll deduction during an Offering, (c) an exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, (d) payroll deduction in excess of or less than the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of subscription agreements, (e) the date(s) and manner by which the Fair Market Value of a share of Stock is determined for purposes of administration of the Plan, or (f) such other limitations or procedures as deemed advisable by the Company in the Company's sole discretion which are consistent with the Plan and in accordance with the requirements of Section 423 of the Code.

## 11. PURCHASE OF SHARES.

11.1 EXERCISE OF PURCHASE RIGHT. On each Purchase Date, each Participant who has not withdrawn from the Offering or whose participation in the Offering has not terminated on or before such Purchase Date shall automatically acquire pursuant to the exercise of the Participant's Purchase Right the number of whole shares of Stock arrived at by dividing the total amount of the Participant's accumulated payroll deductions for the Purchase Period by the Purchase Price; provided, however, in no event shall the number of shares purchased by the Participant during an Offering Period exceed the number of shares subject to the Participant's Purchase Right. No shares of Stock shall be purchased on a Purchase Date on behalf of a Participant whose participation in the Offering or the Plan has terminated on or before such Purchase Date.

11.2 RETURN OF CASH BALANCE. Any cash balance remaining in the Participant's Plan account shall be refunded to the Participant as soon as practicable after the Purchase Date. In the event the cash to be returned to a Participant pursuant to the preceding sentence is an amount less than the amount necessary to purchase a whole share of Stock, the Company may establish procedures whereby such cash is maintained in the Participant's Plan account and applied toward the purchase of shares of Stock in the subsequent Offering Period.

11.3 TAX WITHHOLDING. At the time a Participant's Purchase Right is exercised, in whole or in part, or at the time a Participant disposes of some or all of the shares of Stock he or she acquires under the Plan, the Participant shall make adequate provision for the foreign, federal, state and local tax withholding obligations of the Participating Company Group, if any, which arise upon exercise of the Purchase Right or upon such disposition of shares, respectively. The Participating Company Group may, but shall not be obligated to, withhold from the Participant's compensation the amount necessary to meet such withholding obligations.

11.4 EXPIRATION OF PURCHASE RIGHT. Any portion of a Participant's Purchase Right remaining unexercised after the end of the Offering Period to which such Purchase Right relates shall expire immediately upon the end of such Offering Period.

## 12. LIMITATIONS ON PURCHASE OF SHARES; RIGHTS AS A STOCKHOLDER.

12.1 FAIR MARKET VALUE LIMITATION. Notwithstanding any other provision of the Plan, no Participant shall be entitled to purchase shares of Stock under the Plan (or any other employee stock purchase plan which is intended to meet the requirements of Section 423 of the Code sponsored by the Company or a Parent Corporation or Subsidiary Corporation at a rate which exceeds \$25,000 in Fair Market Value, which Fair Market Value is determined for shares purchased during a given Offering Period as of the Offering Date (or such other limit as may be imposed by the Code), for each calendar year in which the Participant participates in the Plan (or any other employee stock purchase plan described in this sentence).

12.2 PRO RATA ALLOCATION. In the event the number of shares of Stock which might be purchased by all Participants in the Plan exceeds the number of shares of Stock available in the Plan, the Company shall make a pro rata allocation of the remaining shares in as uniform a manner as shall be practicable and as the Company shall determine to be equitable.

12.3 RIGHTS AS A STOCKHOLDER AND EMPLOYEE. A Participant shall have no rights as a stockholder by virtue of the Participant's participation in the Plan until the date of the

issuance of a stock certificate for the shares of Stock being purchased pursuant to the exercise of the Participant's Purchase Right. No adjustment shall be made for cash dividends or distributions or other rights for which the record date is prior to the date such stock certificate is issued. Nothing herein shall confer upon a Participant any right to continue in the employ of the Participating Company Group or interfere in any way with any right of the Participating Company Group to terminate the Participant's employment at any time.

### 13. WITHDRAWAL.

13.1 WITHDRAWAL FROM AN OFFERING. A Participant may withdraw from an Offering by signing and delivering to the Company's payroll or other designated office a written notice of withdrawal on a form provided by the Company for such purpose. Such withdrawal may be elected at any time prior to the end of an Offering Period. Unless otherwise indicated, withdrawal from an Offering shall not result in a withdrawal from the Plan or any succeeding Offering therein. A Participant is prohibited from again participating in an Offering at any time following withdrawal from such Offering. The Company may impose, from time to time, a requirement that the notice of withdrawal be on file with the Company's payroll office or other designated office for a reasonable period prior to the effectiveness of the Participant's withdrawal from an Offering.

13.2 WITHDRAWAL FROM THE PLAN. A Participant may withdraw from the Plan by signing and delivering to the Company's payroll office or other designated office a written notice of withdrawal on a form provided by the Company for such purpose. Withdrawals made after a Purchase Date shall not affect shares of Stock acquired by the Participant on such Purchase Date. In the event a Participant voluntarily elects to withdraw from the Plan, the Participant may not resume participation in the Plan during the same Offering Period, but may participate in any subsequent Offering under the Plan by again satisfying the requirements of Sections 5 and 7.1. The Company may impose, from time to time, a requirement that the notice of withdrawal be on file with the Company's payroll office or other designated office for a reasonable period prior to the effectiveness of the Participant's withdrawal from the Plan.

13.3 RETURN OF PAYROLL DEDUCTIONS. Upon a Participant's withdrawal from an Offering or the Plan pursuant to Sections 13.1 or 13.2, respectively, the Participant's accumulated payroll deductions which have not been applied toward the purchase of shares of Stock shall be returned as soon as practicable after the withdrawal, without the payment of any interest, to the Participant, and the Participant's interest in the Offering or the Plan, as applicable, shall terminate. Such accumulated payroll deductions may not be applied to any other Offering under the Plan.

14. TERMINATION OF EMPLOYMENT OR ELIGIBILITY. Termination of a Participant's employment with a Participating Company for any reason, including retirement, disability or death or the failure of a Participant to remain an Eligible Employee, shall terminate the Participant's participation in the Plan immediately. In such event, the payroll deductions credited to the Participant's Plan account since the last Purchase Date shall, as soon as practicable, be returned to the Participant or, in the case of the Participant's death, to the Participant's legal representative, and all of the Participant's rights under the Plan shall terminate. Interest shall not be paid on sums returned to a Participant pursuant to this Section 14. A Participant whose participation has been so terminated may again become eligible to participate in the Plan by again satisfying the requirements of Sections 5 and 7.1.

## 15. TRANSFER OF CONTROL.

## 15.1 DEFINITIONS.

(a) An "OWNERSHIP CHANGE EVENT" shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company; or (iv) a liquidation or dissolution of the Company.

(b) A "TRANSFER OF CONTROL" shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, the "TRANSACTION") wherein the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting stock of the Company or the corporation or corporations to which the assets of the Company were transferred (the "TRANSFEREE CORPORATION(S)"), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting stock of one or more corporations which, as a result of the Transaction, own the Company or the Transferee Corporation(s), as the case may be, either directly or through one or more subsidiary corporations. The Board shall have the right to determine whether multiple sales or exchanges of the voting stock of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

15.2 EFFECT OF TRANSFER OF CONTROL ON PURCHASE RIGHTS. In the event of a Transfer of Control, the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the "ACQUIRING CORPORATION"), may assume the Company's rights and obligations under the Plan or substitute substantially equivalent Purchase Rights for stock of the Acquiring Corporation. If the Acquiring Corporation elects not to assume or substitute for the outstanding Purchase Rights, the Board shall, notwithstanding any other provision herein to the contrary, adjust the Purchase Date of the then current Offering Period to a date immediately before the date of the Transfer of Control, but shall not adjust the number of shares of Stock subject to any Purchase Right. All Purchase Rights which are neither assumed or substituted for by the Acquiring Corporation in connection with the Transfer of Control nor exercised as of the date of the Transfer of Control shall terminate and cease to be outstanding effective as of the date of the Transfer of Control. Notwithstanding the foregoing, if the corporation the stock of which is subject to the outstanding Purchase Rights immediately prior to an Ownership Change Event described in Section 15.1(a)(i) constituting a Transfer of Control is the surviving or continuing corporation and immediately after such Ownership Change Event less than fifty percent (50%) of the total combined voting power of its voting stock is held by another corporation or by other corporations that are members of an affiliated group within the meaning of section 1504(a) of the Code without regard to the provisions of section 1504(b) of the Code, the outstanding Purchase Rights shall not terminate unless the Board otherwise provides in its sole discretion.

16. NONTRANSFERABILITY OF PURCHASE RIGHTS. A Purchase Right may not be transferred in any manner otherwise than by will or the laws of descent and distribution and shall

be exercisable during the lifetime of the Participant only by the Participant. Any attempt to pledge, assign or transfer such Purchase Rights or accumulated payroll deductions shall be treated as an election to withdraw from the Plan. The Company, in its absolute discretion, may impose such restrictions on the transferability of the shares purchasable upon the exercise of a Purchase Right as it deems appropriate and any such restriction shall be set forth in the respective subscription agreement and may be referred to on the certificates evidencing such shares.

17. REPORTS. Each Participant who exercised all or part of his or her Purchase Right for an Offering Period shall receive, as soon as practicable after the Purchase Date, a report of such Participant's Plan account setting forth the total payroll deductions accumulated, the number of shares of Stock purchased, the Purchase Price for such shares, the date of purchase and the remaining cash balance to be refunded or retained in the Participant's Plan account pursuant to Section 11.2, if any. Each Participant shall be provided information concerning the Company equivalent to that information generally made available to the Company's common stockholders.

18. RESTRICTION ON ISSUANCE OF SHARES. The issuance of shares under the Plan shall be subject to compliance with all applicable requirements of foreign, federal or state law with respect to such securities. A Purchase Right may not be exercised if the issuance of shares upon such exercise would constitute a violation of any applicable foreign, federal or state securities laws or other law or regulations. In addition, no Purchase Right may be exercised unless (a) a registration statement under the Securities Act of 1933, as amended, shall at the time of exercise of the Purchase Right be in effect with respect to the shares issuable upon exercise of the Purchase Right, or (b) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Purchase Right may be issued in accordance with the terms of an applicable exemption from the registration requirements of said Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares under the Plan shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of a Purchase Right, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation, and to make any representation or warranty with respect thereto as may be requested by the Company.

19. LEGENDS. The Company may at any time place legends or other identifying symbols referencing any applicable foreign, federal or state securities law restrictions or any provision convenient in the administration of the Plan on some or all of the certificates representing shares of Stock issued under the Plan. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to a Purchase Right in the possession of the Participant in order to carry out the provisions of this Section. Unless otherwise specified by the Company, legends placed on such certificates may include but shall not be limited to the following:

"THE SHARES EVIDENCED BY THIS CERTIFICATE WERE ISSUED BY THE CORPORATION TO THE REGISTERED HOLDER UPON THE PURCHASE OF SHARES UNDER AN EMPLOYEE STOCK PURCHASE PLAN AS DEFINED IN SECTION 423 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED. THE TRANSFER AGENT FOR THE SHARES EVIDENCED HEREBY SHALL NOTIFY THE CORPORATION IMMEDIATELY OF ANY TRANSFER OF THE SHARES BY THE REGISTERED HOLDER HEREOF MADE ON OR BEFORE , 19 . THE



REGISTERED HOLDER SHALL HOLD ALL SHARES PURCHASED UNDER THE PLAN IN THE REGISTERED HOLDER'S NAME (AND NOT IN THE NAME OF ANY NOMINEE) PRIOR TO THIS DATE."

20. NOTIFICATION OF SALE OF SHARES. The Company may require the Participant to give the Company prompt notice of any disposition of shares acquired by exercise of a Purchase Right within two years from the date of granting such Purchase Right or one year from the date of exercise of such Purchase Right. The Company may require that until such time as a Participant disposes of shares acquired upon exercise of a Purchase Right, the Participant shall hold all such shares in the Participant's name (and not in the name of any nominee) until the lapse of the time periods with respect to such Purchase Right referred to in the preceding sentence. The Company may direct that the certificates evidencing shares acquired by exercise of a Purchase Right refer to such requirement to give prompt notice of disposition.

21. AMENDMENT OR TERMINATION OF THE PLAN. The Plan shall terminate on the earliest to occur of (i) February 28, 2007; (ii) the date on which all available shares are issued; or (iii) the date on which the outstanding Purchase Rights are exercised in connection with a Transfer of Control. The Board may at any time amend or terminate the Plan, except that (a) such termination shall not affect Purchase Rights previously granted under the Plan, except as permitted under the Plan, and (b) no amendment may adversely affect a Purchase Right previously granted under the Plan (except to the extent permitted by the Plan or as may be necessary to qualify the Plan as an employee stock purchase plan pursuant to Section 423 of the Code or to obtain qualification or registration of the shares of Stock under applicable foreign, federal or state securities laws). In addition, an amendment to the Plan must be approved by the stockholders of the Company within twelve (12) months of the adoption of such amendment if such amendment would (a) authorize the sale of more shares than are authorized for issuance under the Plan; or (b) change the definition of the corporations that may be designated by the Board as Participating Companies; or (c) materially modify the eligibility requirements of the Plan except as required by changes in the Code; or (d) permit payroll deductions with respect to the Plan in excess of 10% of the Participant's Compensation; or (e) materially increase the benefits which may accrue under the Plan.

IN WITNESS WHEREOF, the undersigned Secretary of the Company certifies that the foregoing Cohu, Inc. 1997 Employee Stock Purchase Plan was duly adopted by the Board of Directors of the Company on February 28, 1997 and amended on January 31, 2001.

/s/ John H. Allen  
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John H. Allen

## COHU, INC.

1996 OUTSIDE DIRECTORS STOCK OPTION PLAN  
(AS AMENDED)

1. Purpose. The Cohu, Inc. 1996 Outside Directors Stock Option Plan (the "Plan") is established effective as of the date the Plan is approved by the Board of Directors (the "Effective Date") to create additional incentive for the non-employee directors of Cohu, Inc., a Delaware corporation, and any successor corporation thereto (collectively referred to as the "Company") to promote the financial success and progress of the Company and any present or future parent and/or subsidiary corporations of the Company. For purposes of the Plan, a parent corporation and a subsidiary corporation shall be as defined in sections 424(e) and 424(f) of the Internal Revenue Code of 1986, as amended (the "Code").

2. Administration. The Plan shall be administered by the Board of Directors of the Company (the "Board") and/or by a duly appointed committee of the Board having such powers as shall be specified by the Board. Any subsequent references herein to the Board shall also mean the committee if such committee has been appointed and, unless the powers of the committee have been specifically limited, the committee shall have all of the powers of the Board granted herein, including, without limitation, the power to terminate or amend the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law. The Board shall have no authority, discretion, or power to select the non-employee directors of the Company who will receive options under the Plan, to set the exercise price of the options granted under the Plan, to determine the number of shares of common stock to be granted under option or the time at which such options are to be granted, to establish the duration of option grants, or to alter any other terms or conditions specified in the Plan, except in the sense of administering the Plan subject to the provisions of the Plan. All questions of interpretation of the Plan or of any options granted under the Plan (an "Option") shall be determined by the Board, and such determinations shall be final and binding upon all persons having an interest in the Plan and/or any Option. Any officer of the Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the officer has apparent authority with respect to such matter, right, obligation, or election.

3. Eligibility and Type of Option. Options may be granted only to directors of the Company who, at the time of such grant, are not current or former management employees of the Company or of any parent or subsidiary corporation of the Company ("Outside Directors"). Options granted to Outside Directors shall be nonqualified stock options; that is, options which are not treated as having been granted under section 422(b) of the Code.

4. Shares Subject to Option. Options shall be for the purchase of shares of authorized but unissued common stock or treasury shares of common stock of the Company (the "Stock"), subject to adjustment as provided in paragraph 8 below. The maximum number of shares of Stock which may be issued under the Plan shall be Three Hundred Thousand (300,000) shares. In the event that any outstanding Option for any reason expires or is terminated and/or shares of Stock subject to repurchase are repurchased by the Company, the shares allocable to the unexercised portion of such Option, or such repurchased shares, may again be subject to an Option grant. Notwithstanding the foregoing, any such shares shall be made subject to a new Option only if the grant of such new Option and the issuance of such shares pursuant to such new

Option would not cause the Plan or any Option granted under the Plan to contravene Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor rule.

5. Time for Granting Options. All Options shall be granted, if at all, within ten years from the Effective Date.

6. Terms, Conditions and Form of Options. Options granted pursuant to the Plan shall be evidenced by written agreements specifying the number of shares of Stock covered thereby, in substantially the form attached hereto as Exhibit A (the "Option Agreement"), which written agreement may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

(a) Automatic Grant of Options. Subject to execution by an Outside Director of an appropriate Option Agreement, options shall be granted automatically and without further action of the Board, as follows:

9. Each person who is an Outside Director as of the Effective Date, or who is newly elected or appointed as an Outside Director after the Effective Date, shall be granted an Option on the Effective Date, or on the day of such initial election or appointment, as the case may be, to purchase Ten Thousand (10,000) shares of Stock (the "Initial Grant"). On the first anniversary of the Initial Grant and each successive anniversary, each Outside Director shall be granted an Option to purchase Five Thousand (5,000) shares of Stock. Outside Directors who received their Initial Grant more than one year prior to May 15, 2001 shall be granted an Option to purchase Five Thousand (5,000) shares of Stock effective May 15, 2001 and on the date of each successive annual meeting of stockholders held pursuant to Article II, Section 2 of the Company's Bylaws.

(ii) Notwithstanding the foregoing, any Outside Director may elect not to receive an Option granted pursuant to this paragraph 6(a) by delivering written notice of such election to the Board in the case of an initial Option grant, no later than the Effective Date or, in the case of an Outside Director appointed or elected after the Effective Date, the date upon which such Outside Director is appointed or elected to the Board.

(iii) Notwithstanding any other provision of the Plan to the contrary, no Option shall be granted to any individual on a day when he or she is no longer serving as an Outside Director of the Company.

(b) Option Exercise Price. The exercise price per share of Stock subject to an Option shall be the fair market value of a share of the Stock on the date of the granting of the Option. Where there is a public market for the common stock of the Company, the fair market value per share of Stock shall be the mean of the bid and asked prices of the common stock of the Company on the business day immediately preceding the date of the granting of the Option, as reported in the Wall Street Journal (or, if not so reported, as otherwise reported by the National Association of Securities Dealers Automated Quotation ("NASDAQ") System) or, in the event the common stock of the Company is listed on the NASDAQ National Market System or a securities exchange, the fair market value per share of Stock shall be the closing price on such National Market System or exchange on the business day immediately preceding the date of the granting of the Option, as reported in the Wall Street Journal. If the common stock of the

Company is not listed on any exchange or quoted on NASDAQ, the Board of Directors shall in good faith determine the fair market value after consideration of all relevant factors.

(c) Exercise Period and Exercisability of Options. An Option granted pursuant to the Plan shall be exercisable for a term of ten years. Options granted pursuant to the Plan shall first become exercisable on the day (the "Initial Vesting Date") which is one year from the date on which the Option was granted. The Option shall be exercisable on and after the Initial Vesting Date and prior to termination of the Option in an amount equal to the number of Option Shares multiplied by the Vested Ratio as set forth below, less the number of shares previously acquired upon exercise of any portion of the Option.

	Vested Ratio -----
(i) Prior to Initial Vesting Date	0
On Initial Vesting Date, provided the Optionee has continuously served as a director of the Company from the date the Option was granted until the Initial Vesting Date.	1/4
Plus	
(ii) For each full year of the Optionee's continuous service as a director of the Company from the Initial Vesting Date.	1/4

(d) Payment of Option Exercise Price. Payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check, or in cash equivalent, (ii) by the assignment of the proceeds of a sale of some or all of the shares being acquired upon the exercise of an Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System), (iii) by the delivery to the Company of shares of Stock which have been owned by the holder of the Option for more than six months and which have an aggregate value equal to such exercise price, or (iv) by any combination thereof. The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve and/or terminate any program and/or procedure for the exercise of Options by means of an assignment of the proceeds of a sale of some or all of the shares of Stock to be acquired upon such exercise or the delivery of previously owned shares of Stock.

(e) Transfer of Control. A "Transfer of Control" shall be deemed to have occurred in the event any of the following occurs with respect to the Company:

(i) a merger or consolidation where the stockholders of the Company before such merger or consolidation do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Company after such merger or consolidation;

(ii) the sale, exchange, or transfer of all or substantially all of the assets of the Company other than a sale, exchange, or transfer to one or more subsidiary corporations (as defined in paragraph 1 above) of the Company; or

(iii) the direct or indirect sale or exchange by the stockholders of the Company of all or substantially all of the stock of the Company where the stockholders of the Company before such sale or exchange do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Company after such sale or exchange;

(iv) a liquidation or dissolution of the Company.

In the event of a proposed Transfer of Control, any portion of an Option that has not yet become exercisable shall automatically become exercisable for a period of 30 days prior to the proposed effective date of the Transfer of Control. In the event of a Transfer of Control, the Board, in its sole discretion, may arrange with the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the "Acquiring Corporation"), for the Acquiring Corporation to assume the Company's rights and obligations under outstanding Options or substitute options for the Acquiring Corporation's stock for such outstanding Options. Any Options which are neither assumed or substituted for by the Acquiring Corporation nor exercised as of the date of the Transfer of Control shall terminate and cease to be outstanding effective as of the date of the Transfer of Control.

7. Option Agreements; Authority to Vary Terms. Until amended, Options shall be granted using the form of Option Agreement attached hereto. The Board shall have the authority from time to time to vary the terms of the Option Agreements either in connection with the grant of an individual Option or in connection with the authorization of a new standard form or forms of Option; provided, however, that the terms and conditions of such revised or amended standard form or forms of stock option agreement shall be in accordance with the terms of the Plan. Such authority shall include, but not by way of limitation, the authority to grant Options which are immediately exercisable subject to the Company's right to repurchase any unvested shares of Stock acquired by the Optionee on exercise of an Option in the event such Optionee's service as a director of the Company is terminated for any reason. In no event shall the Board be permitted to vary the terms of the Option Agreements or the Plan if such change would require stockholder approval pursuant to Rule 16b-3 promulgated under the Exchange Act, or any successor rule.

8. Effect of Change in Stock Subject to Plan. Appropriate adjustments shall be made in the number and class of shares of Stock subject to the Plan and to any outstanding Options and in the Option exercise price of any outstanding Options in the event of a stock dividend, stock split, recapitalization, reverse stock split, combination, reclassification, or like change in the capital structure of the Company.

9. Options Non-Transferable. During the lifetime of an Optionee, an Option shall be exercisable only by the Optionee. No Option shall be assignable or transferable by the Optionee, except by will or by the laws of descent and distribution.

10. Termination or Amendment of Plan. The Board, including any duly appointed committee of the Board, may terminate or amend the Plan at any time; provided, however, that without the approval of the stockholders of the Company, there shall be (a) no increase in the total number of shares of Stock covered by the Plan (except by operation of the provisions of paragraph 8 above), and (b) no expansion in the class of persons eligible to receive Options; and provided, further, that the provisions of the Plan addressing eligibility to participate in the Plan and the amount, price and timing of grants of Options shall not be amended more than once every six months, other than to comport to changes in the Code, or the rules thereunder. In addition to the foregoing, the approval of the Company's stockholders shall be sought for any amendment to the Plan for which the Board deems stockholder approval necessary in order to comply with Rule 16b-3 under the Exchange Act, or any successor rule. In any event, no amendment may adversely affect any then outstanding Option, or any unexercised portion thereof, without the consent of the Optionee. This Plan shall be submitted for stockholder approval at the next annual stockholders' meeting. In the event the stockholders do not approve the Plan, no further options shall be granted hereunder.

IN WITNESS WHEREOF, the undersigned Secretary of the Company certifies that the foregoing CoHu, Inc. 1996 Outside Directors Stock Option Plan was duly adopted by the Board of Directors of the Company on November 13, 1996 and amended on January 31, 2001.

/s/ John H. Allen  
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John H. Allen

## EXHIBIT A

COHU, INC.  
 NONQUALIFIED STOCK OPTION AGREEMENT  
 FOR OUTSIDE DIRECTORS

Cohu, Inc., a Delaware corporation (the "Company"), hereby grants to \_\_\_\_\_ (the "Optionee") an option to purchase a total of \_\_\_\_\_ (\_\_\_\_\_) shares of the common stock of the Company (the "Number of Option Shares") under the Cohu, Inc. 1996 Outside Directors Stock Option Plan (the "Plan"), at an exercise price of \$\_\_\_\_\_ per share and in the manner and subject to the provisions of this Option Agreement (the "Option"). The grant, in all respects, is subject to the terms and conditions of this Option Agreement and the Plan, the provisions of which are incorporated by reference herein. Unless otherwise provided in this Option Agreement, capitalized terms shall have the meaning given to such terms in the Plan. The Number of Option Shares and the exercise price per share of the Option are subject to adjustment from time to time as provided in the Plan.

1. Grant of the Option. The Option is granted effective as of \_\_\_\_\_ (the "Date of Option Grant").

2. Status of the Option. The Option is intended to be a nonqualified stock option and shall not be treated as an incentive stock option as described in section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

3. Term of the Option. The Option shall terminate and may no longer be exercised on the first to occur of (i) the date ten years after the Date of Option Grant, (ii) the last date for exercising the Option following termination of the Optionee's service as a director of the Company as described in paragraph 6 below, or (iii) upon a Transfer of Control of the Company as described in the Plan (the date of such first occurrence, the "Option Termination Date").

4. Exercise of the Option.

(a) Right to Exercise.

(i) The Option first becomes exercisable on the day which is one year from the Date of Option Grant (the "Initial Vesting Date") provided the Optionee has continuously served as a director of the Company from the Date of Option Grant until the Initial Vesting Date. The Option shall be exercisable on and after the Initial Exercise Date and prior to the Option Termination Date in the amount equal to the Number of Option Shares multiplied by the Vested Ratio as set forth in paragraph 4(a)(ii), below, less the number of shares previously acquired upon exercise of the Option.

	Vested Ratio -----
(ii) Prior to Initial Vesting Date	0
On Initial Vesting Date, provided the Optionee has continuously served as a director of the Company from the date the Option was granted until the Initial Vesting Date.	1/4
Plus	
For each full year of the Optionee's continuous service as a director of the Company from the Initial Vesting Date.	1/4

(iii) In no event shall the Option be exercisable for more shares than the Number of Option Shares. In addition to the foregoing, in the event that the adoption of the Plan or any amendment of the Plan is subject to the approval of the stockholders of the Company in order for the Option to comply with the requirements of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor rule, the Option shall not be exercisable in the absence of such stockholder approval.

(b) Method of Exercise. The Option may be exercised by written notice to the Company which must state the election to exercise the Option, the number of shares of stock for which the Option is being exercised and such other representations and agreements as to the Optionee's investment intent with respect to such shares as may be required pursuant to the provisions of this Option Agreement and the Plan. The written notice must be signed by the Optionee and must be delivered in person or by certified or registered mail, return receipt requested, to the Chief Financial Officer of the Company, or other authorized representative of the Company, prior to the termination of the Option as set forth in paragraph 3 above, accompanied by full payment of the exercise price for the number of shares of Stock being purchased in a form permitted under the terms of the Plan.

(c) Withholding. At the time the Option is exercised, in whole or in part, or at any time thereafter as requested by the Company, the Optionee shall make adequate provision for the foreign, federal and state tax withholding obligations of the Company, if any, which arise in connection with the Option including, without limitation, obligations arising upon (i) the exercise, in whole or in part, of the Option, (ii) the transfer, in whole or in part, of any shares of stock acquired on exercise of the Option, or (iii) the lapsing of any restriction with respect to any shares acquired on exercise of the Option.



(d) Certificate Registration. The certificate or certificates for the shares of stock as to which the Option shall be exercised shall be registered in the name of the Optionee, or, if applicable, the heirs of the Optionee.

(e) Restriction on Grant of the Option and Issuance of Shares. The grant of the Option and the issuance of shares of stock on exercise of the Option shall be subject to compliance with all of the applicable requirements of federal or state law with respect to such securities. The Option may not be exercised if the issuance of shares of stock upon such exercise would constitute a violation of any applicable federal or state securities laws or other law or regulation. In addition, no Option may be exercised unless (i) a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), shall at the time of exercise of the Option be in effect with respect to the shares of stock issuable upon exercise of the Option, or (ii) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. As a condition to the exercise of the Option, the Company may require the Optionee to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

(f) Fractional Shares. The Company shall not be required to issue fractional shares of stock upon the exercise of the Option.

5. Non-Transferability of the Option. The Option may be exercised during the lifetime of the Optionee only by the Optionee and may not be assigned or transferred in any manner except by will or by the laws of descent and distribution.

#### 6. Termination of Service as a Director.

(a) Termination of Director Status. If the Optionee ceases to be a director of the Company for any reason except death or disability within the meaning of section 22(e)(3) of the Code, the Option, to the extent unexercised and exercisable by the Optionee on the date on which the Optionee ceased to be a director, may be exercised by the Optionee at any time prior to the expiration of three months from the date on which the Optionee's service as a director of the Company terminated, but in any event no later than the Option Termination Date. If the Optionee ceases to be a director of the Company because of the death or disability of the Optionee within the meaning of section 22(e)(3) of the Code, the Option, to the extent unexercised and exercisable by the Optionee on the date on which the Optionee ceased to be a director, may be exercised by the Optionee (or the Optionee's legal representative) at any time prior to the expiration of six months from the date on which the Optionee's service as a director of the Company terminated, but in any event no later than the Option Termination Date. The Optionee's service as a director of the Company shall be deemed to have terminated on account of death if the Optionee dies within three months after the Optionee's termination of service as a director of the Company. Except as provided in this paragraph 6, an Option shall terminate and may not be exercised after the Optionee ceases to be a director of the Company.

(b) Extension of Exercise Prevented by Law. Notwithstanding the foregoing, if the exercise of the Option within the applicable time periods set forth above is prevented because the issuance of shares of stock upon such exercise would constitute a violation of any applicable federal or state securities law or other law or regulation, the Option shall remain

exercisable until three months after the date the Optionee is notified by the Company that the Option is exercisable, but in any event no later than the Option Termination Date.

(c) Extension if Optionee Subject to Section 16(b).

Notwithstanding the foregoing, if the exercise of the Option within the applicable time periods set forth above would subject the Optionee to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which the Optionee would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Optionee's termination of service as a director of the Company and (iii) the Option Termination Date.

7. Rights as a Stockholder; Rights to Serve as a Director. The Optionee shall have no rights as a stockholder with respect to any shares of stock covered by the Option until the date of the issuance of a certificate or certificates for the shares for which the Option has been exercised. No adjustment shall be made for dividends or distributions or other rights for which the record date is prior to the date such stock certificate or certificates are issued, except as provided in the Plan. Nothing herein shall be deemed to provide the Optionee with any right to serve as a director of the Company for any length of time.

8. Effect of Change in Stock Subject to the Option. Appropriate adjustments shall be made in the number, exercise price and class of shares of stock subject to the Option in the event of a stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification, or like change in the capital structure of the Company. In the event a majority of the shares which are of the same class as the shares that are subject to the Option are exchanged for, converted into, or otherwise become shares of another corporation (the "New Shares"), the Company may unilaterally amend the Option to provide that the Option is exercisable for New Shares. In the event of any such amendment, the number of shares and the exercise price shall be adjusted in a fair and equitable manner.

9. Transfer of Control. A "Transfer of Control" shall be deemed to have occurred in the event any of the following occurs with respect to the Company:

(a) a merger or consolidation where the stockholders of the Company before such merger or consolidation do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Company after such merger or consolidation;

(b) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange, or transfer to one or more subsidiary corporations (as defined in the Plan) of the Company);

(c) the direct or indirect sale or exchange by the stockholders of the Company of all or substantially all of the stock of the Company where the stockholders of the Company before such sale or exchange do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Company after such sale or exchange; or

(d) A liquidation or dissolution of the Company.

In the event of a proposed Transfer of Control, any portion of this Option that has not yet become exercisable shall automatically become exercisable for a period of 30 days prior to the proposed effective date of such Transfer of Control. In the event of a Transfer of Control, the Board, in its sole discretion, may arrange with the surviving, continuing, successor, or purchasing corporation or parent corporation thereof, as the case may be (the "Acquiring Corporation"), for the Acquiring Corporation to assume the Company's rights and obligations under the Option or substitute options for the Acquiring Corporation's stock for the Option. To the extent the Option is neither assumed or substituted for by the Acquiring Corporation in connection with the Transfer of Control nor exercised as of the date of the Transfer of Control, the Option shall terminate and cease to be outstanding effective as of the date of the Transfer of Control.

10. Legends. The Company may at any time place legends referencing any applicable federal or state securities law restrictions on all certificates representing shares of stock subject to the provisions of this Option Agreement. The Optionee shall, at the request of the Company, promptly present to the Company any and all certificates representing shares of stock acquired pursuant to the Option in the possession of the Optionee in order to effectuate the provisions of this paragraph.

11. Binding Effect. This Option Agreement shall inure to the benefit of the successors and assigns of the Company and be binding upon the Company and the Optionee and the Optionee's heirs, executors, administrators, successors and assigns.

12. Termination or Amendment. The Board, including any duly appointed committee of the Board, may terminate or amend the Plan and/or the Option at any time subject to any limitations described in the Plan; provided, however, that no such termination or amendment may adversely affect the Option or any unexercised portion hereof without the consent of the Optionee.

13. Integrated Agreement. This Option Agreement and the Plan constitute the entire understanding and agreement of the Optionee and the Company with respect to the subject matter contained herein and therein, and there are no agreements, understandings, restrictions, representations, or warranties among the Optionee and the Company other than those as set forth or provided for herein or therein. To the extent contemplated herein and therein, the provisions of this Option Agreement and the Plan shall survive any exercise of the Option and shall remain in full force and effect.

14. Applicable Law. This Option Agreement shall be governed by the laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within the State of California.

COHU, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

The Optionee represents that the Optionee is familiar with the terms and provisions of this Option Agreement and the Plan and hereby accepts the Option subject to all of the terms and provisions thereof. The Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under this Option Agreement or the Plan.

The undersigned acknowledges receipt of a copy of the Plan.

Date: \_\_\_\_\_  
Signature

NONSTATUTORY STOCK OPTION  
NOTICE OF EXERCISE

To: Chief Financial Officer  
Cohu, Inc.

I hereby exercise my Option to purchase the number of shares (the "Shares") of Common Stock of Cohu, Inc. (the "Company") set opposite my signature below. Full payments for the Shares in the manner set forth in my Option Agreement accompanies this notice.

I hereby authorize payroll withholding and otherwise will make adequate provision for foreign, federal and state tax withholding obligations, if any, as more fully set forth in my Option Agreement.

I understand that the Shares are being purchased pursuant to the terms of the Cohu, Inc. 1996 Outside Directors Stock Option Plan and my Option Agreement, copies of which I have received and carefully read and understand.

Date of Exercise:  
Date of Option Agreement:  
Shares Being Purchased:  
Price per Share: \$

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Signature  
  
-----  
Print Name  
  
-----  
Social Security Number  
  
-----  
Address