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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 10-K

(Mark One)

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

For the fiscal year ended November 3, 2001

OR

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

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-7819

### Analog Devices, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of  
incorporation or organization)

04-2348234

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

One Technology Way, Norwood, MA

(Address of principal executive offices)

02062-9106

(Zip Code)

(781) 329-4700

(Registrant's telephone number, including area code)

#### Securities Registered Pursuant to Section 12(b) of The Act:

Common Stock \$0.16 2/3 Par Value

Title of Each Class

New York Stock Exchange

Name of Each Exchange on Which Registered

#### Securities Registered Pursuant to Section 12(g) of The Act:

None

Title of Each Class

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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$15,985,689,956 based on the closing price of the Common Stock on the New York Stock Exchange Composite Tape reporting system on December 31, 2001.

As of December 31, 2001 there were 364,407,391 shares of Common Stock, \$0.16 2/3 par value per share, outstanding.

#### Documents Incorporated by Reference

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## PART I

### ITEM 1. BUSINESS

#### Company Overview

We are a world leader in the design, manufacture and marketing of high-performance analog, mixed-signal and digital signal processing (DSP) integrated circuits (ICs) used in signal processing applications.

We produce a wide range of products that meet the technology needs of a broad base of customers and markets. Markets and applications for our products include communications, computers and computer peripherals, consumer electronics, industrial, instrumentation, military and space systems and automotive electronics.

During fiscal 2001, approximately 38% of our revenues came from the communications market. Over the past few years, this market has been our fastest-growing served market. Communications applications include wireless handsets and base stations, as well as products used for high-speed access to the Internet, including ICs used in ADSL and cable modems and central office networking equipment.

We serve the PC market with products that monitor and manage power usage, process signals used in flat panel displays and multimedia projectors and enable PCs to provide CD-quality audio. We also serve the high-end consumer market with ICs used in products such as digital cameras and camcorders, DVD players and surround sound audio systems. During fiscal 2001, approximately 22% of our revenues were derived from the computer and consumer markets.

We serve the industrial market by providing products for data acquisition systems, automatic process control systems, robotics, environmental control systems and automatic test equipment. We also provide products to the instrumentation market for use in engineering, medical and scientific instruments. During fiscal 2001, approximately 40% of our revenue came from the industrial market.

We sell our products worldwide through a direct sales force, third-party industrial distributors and independent sales representatives. We have direct sales offices in 19 countries, including the United States.

We are headquartered near Boston, in Norwood, Massachusetts, and have manufacturing facilities in Massachusetts, California, North Carolina, Ireland, the United Kingdom, the Philippines and Taiwan. Founded in 1965, we employ approximately 9,000 people worldwide. Our stock is listed on the New York Stock Exchange under the symbol ADI and is included in the Standard & Poor's 500 Index.

#### Industry Background

Real-world phenomena, such as temperature, pressure, sound, images, speed and acceleration, are analog by nature, consisting of continuously varying information. This information can be detected and measured using analog sensors, which represent real-world phenomena by generating continuously varying voltages and currents. The signals from these sensors are initially processed using analog methods, such as amplification, filtering and shaping. They are then usually converted to digital form for storage, display or further manipulation. The further manipulation of the signals after conversion to digital form is called "digital signal processing," or DSP. Digital signals are frequently converted back to analog form for functions such as analog display, audio output or control. These manipulations and transformations along this signal chain are collectively known as "real-world signal processing."

Significant advances in semiconductor technology in recent years have substantially increased the performance and functionality of ICs used in signal processing applications. These advances include the ability to combine analog and digital signal processing capability on a single chip, thereby making possible much more highly integrated solutions. The convergence of computing and communications requires end products that incorporate state-of-the-art signal processing capability onto as few chips as possible. Our products are used as components in equipment and systems to achieve higher performance, including greater speed, improved accuracy, more efficient signal processing, and minimized power consumption.

## Principal Products

We are engaged in the design, manufacture and marketing of a broad line of high-performance ICs that incorporate analog, mixed-signal and digital signal processing technologies that address a wide range of real-world signal processing applications. We produce and market several thousand products. Our highest revenue product accounted for approximately 2% of our revenue for fiscal 2001. Many of our products are proprietary and equivalent products are available only from a limited number of other suppliers. We also design, manufacture and market a limited range of assembled products.

## Markets and Applications

The following describes some of the characteristics of, and products supplied to, each of our major markets:

**Communications** — The development of broadband, wireless and Internet infrastructures around the world has created an important market for our communications products. Communications technology involves the acquisition of analog signals that are converted from analog to digital and digital to analog form as they are processed and transmitted. Our expertise in combining analog and digital functionality on a single chip or chip set has enabled us to develop products that fulfill the technological challenges of this complex and rapidly expanding market space. The need for ever higher speed and reduced power consumption, coupled with more reliable, more bandwidth-efficient communications, is creating increasing demand for our products, which are used in systems that include digital, analog and mixed-signal processing capability. Our products are used in the full spectrum of signal processing for audio, data, image or video communication. In broadband and wireless communication applications, our products are incorporated into data and digital subscriber line (DSL) modems, cellular telephones, base station equipment and remote access servers. We are also developing micromachined products for use in optical networks.

**Computers and Computer Peripherals** — Increased interface between users and PCs through monitors, printers, scanners and audio devices and the increasing need for power and thermal management capability in PCs have provided many opportunities in the computer market. Our ability to integrate analog, DSP and mixed-signal functionality on ICs has enabled us to supply many high performance critical components required by PC manufacturers. The computer industry seeks to develop and market ever smaller and lighter personal computers. This need increases demand for high performance ICs to monitor power usage to enable manufacturers to use smaller batteries and extend battery life between charges. We currently supply a variety of ICs used in this market for functions such as graphic displays, interfaces between PCs and peripherals such as modems and printers, power and battery management, and enhanced audio input and output capability for business and entertainment applications.

**Consumer Electronics** — Increased market demand for acquisition, display and digital processing of signals has allowed us to combine analog and digital design capability to provide solutions that meet the rigorous cost, size and reliability constraints of the consumer electronics market. The emergence of high-performance feature-rich consumer products, such as home sound systems, video projectors, DVD players and digital camcorders and cameras, has led to the need for high-performance system-level ICs with a high level of specific functionality.

**Industrial** — Our industrial market includes data acquisition systems, automatic process control systems, robotics, environmental control systems and automatic test equipment. These products generally require ICs that offer performance greater than that available from commodity-level ICs, but generally do not have production volumes that warrant custom or application-specific ICs. Combinations of analog and mixed-signal ICs are usually employed to achieve the necessary functionality. Automatic test equipment applications have created opportunities for the design of system-level ICs that require a high level of electronic circuitry.

**Instrumentation** — Our instrumentation market includes engineering, medical and scientific instruments. These products are usually designed using the highest performance analog and mixed-signal ICs available. Production volumes in this space generally do not warrant custom or application-specific ICs.

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**Military/ Aerospace** — The military, commercial avionics and space markets all require high-performance ICs that meet rigorous environmental and reliability specifications. Nearly all of our analog ICs can be supplied in versions that meet appropriate military standards. In addition, many products can be supplied to meet the standards required for broadcast satellites and other commercial space applications. Most of our products sold in this market are derived from standard commercial grade ICs.

**Automotive** — Although the automotive market has historically been served with low-cost, low-performance ICs, demand has emerged for higher performance devices for a wide range of applications. In response, we are developing products specifically for the automotive market. We supply a micromachined IC used as a crash sensor in airbag systems, which serves as an alternative to an electromechanical sensor. We believe that other micromachined devices derived from this product may be suitable for other automotive applications, such as roll-over sensing, global positioning satellite (GPS) automotive navigation systems, anti-lock brakes and “smart” suspension systems and non-automotive applications including earthquake detectors and high-end computer joysticks.

## **Research and Development**

Our markets are characterized by rapid technological changes and advances. Accordingly, we make substantial investments in the design and development of new products and processes, and for significant improvement of existing products and processes. We spent \$465 million during fiscal 2001 related to the design, development and improvement of new and existing products and processes, compared to \$390 million spent during fiscal 2000 and \$253 million spent during fiscal 1999.

In support of our research and development activities, we employ hundreds of engineers involved in product and process development at several design centers and manufacturing sites located throughout the world.

As of November 3, 2001, we owned approximately 662 U.S. patents and had 318 patent applications on file with the United States patent office. We believe that while our patents may provide some advantage, our competitive position is largely determined by such factors as the system and application knowledge, ability and experience of our personnel, the range and number of new products being developed, our market brand recognition and ongoing marketing efforts, customer service and technical support.

## **IC Products**

### *Analog Products*

Our analog IC technology has been the foundation of our business for more than 25 years, and we believe we are one of the world’s largest suppliers of analog ICs. Our analog ICs are primarily high-performance, single-function devices. The majority of our analog IC product revenue is attributable to sales of data converters (analog-to-digital and digital-to-analog) and amplifiers. Other analog IC products we offer include analog signal processing devices (such as analog multipliers), voltage references and comparators. Over the past few years we have been expanding our analog IC product offerings along the entire analog signal chain and into product areas where our focus was previously limited, principally interface circuits and power management ICs. We are also expanding our analog IC product line to better meet the needs of customers designing portable battery-operated equipment.

Our analog IC products tend to be general purpose in nature. This allows customers to incorporate them into a wide variety of equipment and systems. Our product portfolio includes several hundred analog ICs, any one of which can have as many as several hundred customers. Analog ICs typically have long product life cycles. Our analog IC customers include both original equipment manufacturers (OEMs) and customers who build equipment for their own use. Most of our analog ICs have been purchased by OEMs to serve the instrumentation, industrial and military/ aerospace markets, but during the past few years they have been increasingly used for applications in communications, computers, camcorders, scanners, automatic test equipment, imaging and other consumer applications requiring high-performance real-world signal processing. By using standard, high-performance, readily available, off-the-shelf components in their designs, our

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customers can reduce the time they need to develop and bring new products to market. Given the high cost of developing customized ICs, analog ICs usually provide the most cost-effective solution for low to medium volume applications. In addition, combinations of analog ICs connected together on a printed circuit board can provide functionality not currently achievable using a single IC.

Other analog ICs include circuits that are designed to serve the needs of particularly demanding applications, such as very high speed analog timing and pin driver circuits needed by OEMs in the automatic test equipment business. Manufacturers of portable instrumentation need analog ICs designed to address demanding battery life requirements, and need similar kinds of functions available in analog IC products integrated into a single, very low-power chip. Other principal requirements include higher accuracy, lower cost per function, smaller size, lower weight and fewer components for improved reliability. These application-specific products allow our customers to design smaller, lighter, higher performance, more power-efficient and lower-cost end products. We believe that these benefits have become more important to our OEM customers as they increase their focus on high-performance, small, lightweight products, many of which are battery-powered.

### *General Purpose DSP Products*

Our DSP products are designed to efficiently execute specialized software programs (algorithms) associated with processing digitized real-time, real-world data. General-purpose DSP IC customers typically write their own algorithms using software tools that we provide and software tools they obtain from third-party suppliers. All of these devices share a common architecture that allows system designers to address cost, performance and time-to-market constraints. We support these products with specialized applications and easy-to-use, low-cost design tools, which reduce product development costs and time to market.

### *Mixed-Signal Products*

Our products also include multi-function mixed-signal devices that incorporate combinations of analog and digital technology. The growing need to allow user interface with computers and consumer products as well as the development of communications systems has created new opportunities for these mixed-signal devices. Examples of these devices include chipsets for communication applications (GSM cellular phones, remote access servers, data and fax modems), audio input/output devices and power and thermal management devices for computer applications and electric motor control devices.

### *Micromachined Products*

Our technology base includes a number of new products using an advanced IC technology known in the industry as surface micromachining. This technology enables extremely small mechanical structures to be built on the surface of a chip along with supporting circuitry. In addition to incorporating an electro-mechanical structure, these devices also have analog circuitry for conditioning signals obtained from the micromachined sensing element.

Our micromachined products are accelerometers used in a wide variety of applications. The majority of current revenue from micromachined products is derived from accelerometers used by automotive manufacturers in airbag applications. Emerging applications include GPS automobile navigation systems, earthquake detectors and high-end computer joysticks. We are also engaged in the development of micromachined products for use in all-optical switching elements in optical networks.

### *General Purpose and Custom Products*

Across the entire range of ICs that we design and manufacture are general purpose products as well as custom products designed for specific applications for specific customers. In many of the new emerging markets in communications, computer and consumer products, there is a tendency to work with selected major customers to design application-specific solutions which can combine elements of analog, digital, mixed-signal and micromachined functionality.

## **Assembled Products**

Our assembled products include multi-chip modules (MCMs), hybrids and printed circuit board modules. An MCM is a device made up of several IC chips assembled in an automated fashion in a multilayer package that provides high interconnect density at low cost. A hybrid consists of several chips and discrete components mounted and wired together on a substrate, which is then enclosed in a package. A printed-board module consists of surface-mount components assembled on a small printed board that is then encapsulated in a small plastic case.

Revenues from this product group have been declining for several years, primarily because hybrids are being replaced in many new designs with smaller, lower-cost monolithic ICs that offer higher levels of performance and integration. Sales of these products are approximately 3% of our total sales.

## **Sales Channels**

We sell our products in North America and internationally through a direct sales force, third-party distributors and independent sales representatives. Approximately 39% of our fiscal 2001 net sales were to customers in North America. As of December 1, 2001, we had 12 sales offices in the United States, and our third-party distribution channel consisted of six national and regional third-party distributors and several independent sales representatives in numerous locations throughout the U.S. and Canada.

Approximately 24% of our fiscal 2001 net sales were to customers in Europe, 15% to customers in Japan, and 22% to customers in other international markets. As of December 1, 2001, we had direct sales offices in Australia, Austria, Brazil, Canada, China, Denmark, France, Germany, Hong Kong, India, Israel, Italy, Japan, Korea, the Netherlands, Singapore, Sweden, Taiwan and the United Kingdom. We also had sales representatives and/or distributors in approximately 46 countries outside North America, including countries where we also have direct sales offices. For further detail regarding geographic information, see Note 4 in the Notes to our Consolidated Financial Statements included as part of this report.

A significant portion of our fiscal 2001 revenue was derived from sales made through distributors. These distributors typically maintain an inventory of our products. Some of them also sell products competitive with our products, including those for which we are an alternate source. Sales to certain distributors are made under agreements that provide protection to the distributors for their inventory of our products against price reductions and products that are slow-moving or that we have discontinued.

Our worldwide technical direct field sales efforts are supported by an extensive promotional program that includes editorial coverage and paid advertising in trade publications, direct mail programs, promotional brochures, technical seminars and participation in trade shows. We publish and distribute full-length databooks, short-form catalogs, applications guides, technical handbooks and detailed data sheets for individual products. We also provide product and application information and sell products via our worldwide web site on the Internet. We maintain a staff of field application engineers who aid customers in incorporating our products into their products during their product development cycles.

For fiscal 2001, our 20 largest customers accounted for approximately 30% of our net sales. The largest single customer represented approximately 3% of net sales.

## **Production and Raw Materials**

Monolithic integrated circuit components are manufactured in a sequence of semiconductor production steps that include wafer fabrication, wafer testing, cutting the wafer into individual "chips" (or dice), assembly of the dice into packages and electrical testing of the devices in final packaged form. The raw materials used to manufacture these devices include silicon wafers, processing chemicals (including liquefied gases), precious metals, ceramic packages and plastic used for packaging.

We develop and employ a wide variety of proprietary processes that are specifically tailored for use in fabricating high-performance linear, mixed-signal and system-level ICs. We also use industry-standard bipolar and CMOS wafer fabrication processes.

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Our IC products are fabricated both at our production facilities and by third-party wafer fabricators. We rely primarily on our own facilities for fabricating wafers that require linear and mixed-signal processes. We operate wafer fabrication facilities in Wilmington and Cambridge, Massachusetts; Santa Clara and Sunnyvale, California; Belfast, Northern Ireland and Limerick, Ireland. We also operate assembly and test facilities located in Ireland, the Philippines and Taiwan and also use third-party subcontractors. We have agreements with Taiwan Semiconductor Manufacturing Company, (TSMC), and Chartered Semiconductor Manufacturing Pte., Ltd., (CSM), for the production of digital and very large scale integration mixed-signal devices. To provide access to advanced process technology at competitive costs, we participated in the formation of a joint venture (WaferTech, LLC) with TSMC, Altera, Integrated Silicon Solutions and several individual investors that built a fabrication facility for eight-inch wafers in Camas, Washington. Originally we had an 18% equity ownership in WaferTech. In fiscal 1999, we sold 78% of our investment to other WaferTech partners in exchange for \$105 million in cash, which was equal to 78% of the carrying value of the equity ownership at October 31, 1998. During the first quarter of fiscal 2001, we completed the sale of our remaining investment in WaferTech, LLC to TSMC for approximately \$61 million in cash. We recorded a pretax realized gain on the sale of this investment of approximately \$28 million.

Hybrid products are manufactured by mounting and connecting together several integrated circuit chips in a single package. We manufacture some of the chips used in our hybrids, and purchase others from outside suppliers. The production process for modular components, subsystems and systems consists primarily of assembly, packaging and testing. Some of our assembled products are assembled and tested within our U.S. manufacturing facilities and at U.S. subcontractors, while others are assembled and tested at our facilities outside the United States or by subcontractors, principally in the Far East.

To respond to production capacity requirements, we significantly expanded our manufacturing capacity over the past several years. Major wafer fabrication expansions were completed in Wilmington, Massachusetts, Sunnyvale, California, and Limerick, Ireland. In fiscal 2001, we completed construction of an additional assembly and test facility in Cavite, Philippines. We expect that our capital expenditures for fiscal 2002 will be approximately \$70 million compared to \$297 million in fiscal 2001.

### **Backlog**

Backlog at the end of fiscal 2001 was approximately \$210 million, down from approximately \$1,062 million at the end of fiscal 2000. We define backlog as firm orders with a customer requested delivery date within thirteen weeks. While backlog has declined primarily as a result of the lower demand for our products from the year earlier period, it has also been impacted by the tendency of customers to rely on shorter lead times available from suppliers, including us, in periods of depressed demand. In periods of increased demand, there is a tendency towards longer lead times that has the effect of increasing backlog and, in some instances, we may not have manufacturing capacity sufficient to fulfill all orders. As is customary in the semiconductor industry, we allow orders to be canceled or deliveries delayed by customers without penalty. Accordingly, we believe that our backlog at any time should not be used as an indication of future revenues.

### **Government Contracts**

We estimate that approximately 4% of our fiscal 2001 total worldwide revenue was attributable to sales to the U.S. government and government contractors and subcontractors. Our government contract business is predominantly in the form of negotiated, firm fixed-price subcontracts. All such contracts and subcontracts contain standard provisions relating to termination at the election of the United States government.

### **Competition**

We compete with a large number of semiconductor companies in markets that are highly competitive. We believe we are one of the largest suppliers of high-performance linear and mixed-signal signal-processing components. Competitors for our analog, mixed-signal and DSP products include Cirrus Logic Inc., Linear Technology Corp., Maxim Integrated Products, Inc., Motorola Semiconductor Products, National Semiconductor Corp., Phillips Semiconductor, ST Microelectronics and Texas Instruments, Inc. Sales of our

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micromachined products are currently comprised of acceleration sensors, and our main competitors are Bosch, Motorola and Denso, which use a multichip solution. We use a single chip solution that we believe provides cost, reliability and functional advantages in the marketplace.

Many other companies offer products that compete with our products. Some also offer other electronic products, and some have financial resources substantially larger than ours. Also, some formerly independent competitors have been purchased by larger companies.

We believe that competitive performance in the marketplace for real-world signal-processing components depends upon several factors, including product price, technical innovation, product quality and reliability, range of products, customer service and technical support. We believe our aggressive technical innovation emphasizing product performance and reliability, supported by our commitment to strong customer service and technical support, enables us to continue to compete successfully in our chosen markets against both foreign and domestic semiconductor manufacturers.

### **Environment**

Our manufacturing facilities are subject to numerous environmental laws and regulations, particularly with respect to industrial waste and emissions. Compliance with these laws and regulations has not had a material impact on our capital expenditures, earnings or competitive position.

### **Employees**

As of November 3, 2001, we employed approximately 9,000 persons. Our future success depends in large part on the continued service of our key technical and senior management personnel, and on our ability to continue to attract, retain and motivate qualified employees, particularly those highly skilled design, process and test engineers involved in the manufacture of existing products and the development of new products and processes. The competition for such personnel is intense, and the loss of key employees could have a material adverse effect on us. We believe that relations with our employees are good.

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**ITEM 2. PROPERTIES**

Our corporate headquarters is located in Norwood, Massachusetts. Manufacturing and other operations are conducted in several locations worldwide. The following tables provide certain information about our principal general offices and manufacturing facilities:

Plant Locations Owned:	Use	Floor Space
Wilmington, MA	Wafer fabrication, testing, engineering and administrative offices	265,200 sq. ft.
Wilmington, MA	Engineering, marketing and administrative offices	108,000 sq. ft.
Wilmington, MA	Engineering, marketing and administrative offices	65,500 sq. ft.
Wilmington, MA	Engineering, marketing and administrative offices	150,000 sq. ft.
Westwood, MA	Engineering and administrative offices	100,500 sq. ft.
Limerick, Ireland	Wafer fabrication, wafer probe and testing, engineering and administrative offices	375,000 sq. ft.
Greensboro, NC	Components and board assembly and testing, engineering and administrative offices	140,600 sq. ft.
Cavite, Philippines	Components assembly and testing, engineering and administrative offices	414,000 sq. ft.
Manila, Philippines	Components assembly and testing, engineering and administrative offices	81,300 sq. ft.

Principal Properties Leased:	Use	Floor Space	Lease Expiration	Renewals
Norwood, MA	Corporate headquarters, engineering, components testing, sales and marketing offices	135,000 sq. ft.	(fiscal year) 2007	3, five-yr. periods
Cambridge, MA	Wafer fabrication, components testing and assembly engineering, marketing and administrative offices	117,000 sq. ft.	2006	1, five-yr. period
Santa Clara, CA	Wafer fabrication, components assembly and testing, engineering and administrative offices	72,800 sq. ft.	2002	3, five-yr. periods
Santa Clara, CA	Engineering and administrative offices	43,500 sq. ft.	2002	3, five-yr. periods
Sunnyvale, CA	Wafer fabrication	63,100 sq. ft.	2010	1, five-yr. period
Taipei, Taiwan	Components testing, engineering and administrative offices	45,700 sq. ft.	2002	1, five to seven yr. period
Austin, TX	Engineering and administrative offices	40,000 sq. ft.	2006	1, five yr. period

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In addition to the principal leased properties listed in the previous table, we also lease sales offices and other premises at 26 locations in the United States and 40 locations overseas under operating lease agreements. These leases expire at various dates through the year 2035. We anticipate no difficulty in retaining occupancy of any of our manufacturing, office or sales facilities through lease renewals prior to expiration or through month-to-month occupancy, or in replacing them with equivalent facilities. For information concerning our obligations under all operating and capital leases see Note 9 in the Notes to our Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K.

### **ITEM 3. LEGAL PROCEEDINGS**

The information required by this item is set forth in Note 10 in the Notes to our Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of our security holders during the last quarter of the fiscal year ended November 3, 2001.

**EXECUTIVE OFFICERS OF THE COMPANY**

The following table sets forth (i) the name and age of each present executive officer; (ii) the position(s) presently held by each person named; and (iii) the principal occupations held by each person named for at least the past five years. There is no family relationship among the named officers.

<b>Executive Officer</b>	<b>Age</b>	<b>Position(s)</b>	<b>Business Experience</b>
Ray Stata	67	Chairman of the Board	Chairman of the Board since 1973; Chief Executive Officer from 1973 to November 1996; President from 1971 to November 1991.
Jerald G. Fishman	56	President, Chief Executive Officer and Director	Chief Executive Officer since November 1996; President and Director since November 1991; Executive Vice President from 1988 to November 1991; Group Vice President — Components from 1982 to 1988.
Ross Brown	57	Vice President, Human Resources	Vice President, Human Resources since May 1993; U.S. Personnel Manager for Digital Equipment Corp. from 1990 to 1993; Senior Group Personnel Manager at Digital Equipment Corp. from 1986 to 1990.
Samuel H. Fuller	55	Vice President, Research and Development	Vice President, Research and Development since March 1998; Vice President of Research and Chief Scientist of Digital Equipment Corp. from 1983 to 1998.
Russell K. Johnsen	47	Vice President, Corporate Business Development	Vice President, Corporate Business Development since March 2001; Vice President and General Manager, Communications Products May 1994 to March 2001; Vice President and General Manager, Analog Devices Semiconductor Division from November 1993 to May 1994; General Manager of the Wide Area Networks Division of National Semiconductor Corp. from 1992 to 1993.
Robert R. Marshall	47	Vice President, Worldwide Manufacturing	Vice President, Worldwide Manufacturing since February 1994; Vice President, Manufacturing, Limerick Site, Analog Devices, B.V. — Limerick, Ireland from November 1991 to February 1994; Plant Manager, Analog Devices, B.V. — Limerick, Ireland from January 1991 to November 1991.

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<u>Executive Officer</u>	<u>Age</u>	<u>Position(s)</u>	<u>Business Experience</u>
William A. Martin	42	Treasurer	Treasurer since March 1993; Assistant Treasurer from October 1991 to March 1993; Manager of Treasury Finance from March 1987 to October 1991; Manager of International Treasury from October 1985 to March 1987.
Robert McAdam	51	Vice President and General Manager, Analog Semiconductor Components	Vice President and General Manager, Analog Semiconductor Components since February 1994; Vice President and General Manager, Analog Devices, B.V. — Limerick, Ireland from January 1991 to February 1994; Product Line Manager, Analog Devices, B.V. — Limerick, Ireland from October 1988 to January 1991.
Brian P. McAloon	51	Group Vice President, DSP and System Products Group	Group Vice President, DSP and Systems Products Group since March 2001; Vice President, Sales May 1992 to March 2001; Vice President, Sales and Marketing — Europe and Southeast Asia from 1990 to 1992; General Manager, Analog Devices, B.V. — Limerick, Ireland from 1987 to 1990.
Joseph E. McDonough	54	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer since November 1991; Vice President since 1988 and Treasurer from 1985 to March 1993; Director of Taxes from 1983 to 1985.
Vincent Roche	41	Vice President, Worldwide Sales	Vice President, Worldwide Sales since March 2001; Vice President and General Manager, Silicon Valley Business Units and Computer & Networking from 1999 to March 2001; Product Line Director from 1995 to 1999; Product Marketing Manager from 1988 to 1995.
Franklin Weigold	62	Vice President and General Manager, Micromachined Products	Vice President and General Manager, Micromachined Products since November 1999; Vice President and General Manager, Transportation and Industrial Products Division from March 1992 to November 1999; President and Chief Operating Officer of Unitrode from June 1990 to March 1992.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS**

Our Common Stock is listed on the New York Stock Exchange ("NYSE") under the symbol ADI. The table below sets forth the NYSE high and low sale prices of our Common Stock during the two most recent fiscal years.

Period	Fiscal 2001		Fiscal 2000	
	High	Low	High	Low
First Quarter	\$68.00	\$42.63	\$ 52.63	\$27.00
Second Quarter	\$55.01	\$30.50	\$ 94.69	\$43.00
Third Quarter	\$53.30	\$38.41	\$100.00	\$54.00
Fourth Quarter	\$52.74	\$29.00	\$103.00	\$56.06

We have never paid any cash dividends on our Common Stock and currently have no intentions to do so.

The approximate number of holders of record of our Common Stock at December 31, 2001 was 5,052. This number does not include shareholders for whom shares are held in a "nominee" or "street" name.

On February 6, 2001, we issued and delivered an aggregate of 27,136 shares of our common stock to three individuals in partial fulfillment of the payment by us of consideration to the three former stockholders of White Mountain DSP, Inc., which we acquired on February 5, 1999. We issued and delivered these shares in reliance upon an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended.

**ITEM 6. SELECTED FINANCIAL DATA**

(thousands except per share amounts)	2001	2000	1999	1998	1997
<b>Statement of Operations data:</b>					
Net sales	\$2,276,915	\$2,577,547	\$1,450,379	\$1,230,571	\$1,243,494
Net income before cumulative effect of change in accounting principle	356,377	607,132	196,819	119,488	178,219
Cumulative effect of change in accounting principle	—	—	—	37,080	—
Net income after cumulative effective of change in accounting principle	\$ 356,377	\$ 607,132	\$ 196,819	\$ 82,408	\$ 178,219
<b>Net income per share:</b>					
Basic	1.00	1.71	0.58	0.26	0.57
Diluted	0.93	1.59	0.55	0.25	0.52
<b>Pro forma amounts with the change in accounting principle related to revenue recognition applied retroactively:</b>					
Net sales	—	—	—	\$1,230,571	\$1,214,602
Net income	—	—	—	119,488	167,515
<b>Net income per share:</b>					
Basic	—	—	—	0.37	0.53
Diluted	—	—	—	0.36	0.49
<b>Balance Sheet data:</b>					
Total assets	\$4,884,863	\$4,411,337	\$2,218,354	\$1,861,730	\$1,763,853
Long-term debt and non-current obligations under capital leases	1,206,038	1,212,960	16,214	340,758	348,852

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Results of Operations**

Net sales were \$2,277 million in fiscal 2001, a decrease of 12% from net sales of \$2,578 million in fiscal 2000. The decrease in net sales was attributable to declining demand in several markets that we serve, particularly the communications market, as well as an overall decline in the general economy. Fiscal 2001 analog IC product sales decreased 3% from fiscal 2000. Our analog IC product sales were strong in the first half of the year and declined in line with a major downturn in the semiconductor industry that occurred during the last half of fiscal 2001. Our fiscal 2001 DSP IC product sales decreased 32% from the prior year due to order cancellations and adjustments, particularly from telecommunications customers and contract manufacturers. Sales of new products, which we define as sales of products introduced in the prior six quarters, were 19% of net sales in fiscal 2001 as compared with 25% in fiscal 2000. The year over year decrease in new products as a percentage of sales was primarily due to the sharp downturn in sales of our communications products.

Net sales were \$2,578 million in fiscal 2000, an increase of 78% over net sales of \$1,450 million in fiscal 1999. This increase in net sales was attributable to continued growth in the markets we serve. Sales into all end markets increased in fiscal 2000 with the communications market representing the largest growth area.

The percentage of sales by geographic region for the last three years is as follows:

Region	Fiscal 2001	Fiscal 2000	Fiscal 1999
North America	39%	45%	46%
Europe	24%	19%	22%
Japan	15%	14%	14%
Southeast Asia	22%	22%	18%

As set forth above, the fiscal 2001 decline in North American sales as a percentage of total sales was principally attributable to an overall decline in the communications market as well as a cyclical downturn in the semiconductor industry. Sales to international regions remained strong in the first half of fiscal 2001 but weakened in the latter half of the year due to the downturn in the semiconductor industry. In absolute dollar terms, sales to Europe increased by 10% in fiscal 2001. Sales in fiscal 2001 to Japan remained relatively flat to fiscal 2000 as both a percentage of sales and in absolute dollar terms. Fiscal 2001 sales to Southeast Asia remained flat as a percentage of sales as compared to fiscal 2000 while declining approximately 13% in absolute dollars. In fiscal 2000, sales to Europe declined as a percentage of total sales largely due to a weakening Euro/ U.S. dollar exchange rate over fiscal 1999. In absolute dollars, fiscal 2000 net sales increased over fiscal 1999 by 72% in North America, 61% in Europe, 75% in Japan and 114% in Southeast Asia. These large sales increases were due to high growth in end market demand that was not sustainable.

Gross margin was \$1,269 million, or 55.7% of net sales, in fiscal 2001 compared to \$1,461 million, or 56.7% of net sales, in fiscal 2000. Gross margin declined by 100 basis points from the prior year due to reduced revenue levels, the impact of inventory reserves and low utilization of our internal fabs. The increase in gross margin in fiscal 2000 to 56.7% from the 49.3% achieved in fiscal 1999 was due primarily to the favorable effect of fixed costs being allocated across a higher sales base and improved manufacturing efficiencies as production increased at our wafer fabrication, assembly and test facilities. Gross margin declined to 52% in the fourth quarter of fiscal 2001 as a result of a 47% sales decline in the fourth quarter of fiscal 2001 as compared to the fourth quarter of fiscal 2000.

Research and development (R&D) expense amounted to \$465 million in fiscal 2001, an increase of \$75 million over fiscal 2000. Additional expenses associated with increased engineering headcount were the main reason for the year over year increase. As a result of the decline in the year to year revenue, R&D spending as a percentage of sales increased to 20.4% from 15.1% in fiscal 2000. At any point in time we have hundreds of R&D projects underway, and we believe that none of these projects is material on an individual basis. We expect to continue the development of innovative technologies and processes for new products and we believe that a continued commitment to research and development is essential in order to maintain product

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leadership with our existing products and to provide innovative new product offerings, and therefore we expect to continue to make significant R&D investments in the future. In fiscal 2000, R&D expense increased to \$390 million from \$253 million in fiscal 1999.

Amortization of intangibles was \$53 million for fiscal 2001 compared with \$11 million for fiscal 2000. The increase in amortization expense was attributable to the amortization of goodwill associated with the acquisition of BCO Technologies plc in the third quarter of fiscal 2000, and the acquisition of Thomas Neuroth AG, Signal Processing Associates Pty. Ltd., Integrated Micro Instruments, Inc., ChipLogic, Inc. and Staccato Systems, Inc. completed in the first quarter of fiscal 2001.

During the first quarter of fiscal 2001, we completed the following acquisitions:

Acquired Company	Purchase Price	Maximum Contingent Consideration
Thomas Neuroth AG (Neuroth)	\$ 4,500,000	\$ 4,000,000
Signal Processing Associates Pty. Ltd. (SPA)	3,800,000	500,000
Integrated Micro Instruments (IMI)	1,900,000	2,700,000
ChipLogic, Inc. (ChipLogic)	68,300,000	29,000,000
Staccato Systems, Inc. (Staccato)	23,800,000	7,000,000

- On October 31, 2000, we acquired Thomas Neuroth AG (Neuroth) of Vienna, Austria for approximately \$4.5 million in cash, with additional contingent cash consideration of up to \$4 million payable if certain operational objectives are achieved. As of November 3, 2001, \$1 million of the contingent consideration has been paid and charged to operations. The remaining \$3 million of contingent consideration will be accounted for as goodwill. Neuroth is a developer of highly integrated circuits for symmetric DSL broadband access.
- On November 10, 2000, we acquired Signal Processing Associates Pty. Ltd., (SPA) of Victoria, Australia for approximately \$3.8 million in cash, with additional contingent cash consideration of up to \$0.5 million payable if certain operation objectives are achieved. The contingent consideration will be recorded as compensation expense. SPA is a developer and supplier of voice processing and fax/data relay software for telecommunications applications.
- On December 18, 2000, we acquired Integrated Micro Instruments, Inc. (IMI) of Berkeley, California for approximately \$1.1 million in cash and 13,750 shares of our common stock valued at approximately \$0.8 million. An additional 50,000 shares of common stock valued at a fixed amount of approximately \$2.7 million are issuable over the next five years upon the satisfaction of certain conditions. The contingent consideration will be recorded as compensation expense. IMI develops MEMS process designs.
- On January 4, 2001, we acquired ChipLogic, Inc. (ChipLogic) of Santa Clara, California. The total purchase price of \$68.3 million consisted of cash of approximately \$4 million, approximately 1 million shares of our common stock valued at \$60.2 million and the assumption of \$4.1 million of outstanding ChipLogic stock options. Approximately \$9.5 million represented the purchase price of in-process technology that had not yet reached technological feasibility, had no alternative future use and was charged to operations during fiscal 2001. An additional \$8 million of cash consideration and 489,375 shares of common stock is due if certain operational objectives are achieved and will be accounted for as compensation expense. Of these shares, 249,375 contingent shares have a fixed value of approximately \$13 million which is being charged to operations over a five year period. The remaining 240,000 shares are subject to performance-based criteria. During fiscal 2001, approximately \$4.2 million of expense was recorded related to the issuance of 117,592 shares of common stock associated with the achievement of certain of these objectives. The remaining performance based shares had a value of approximately \$3.8 million as of November 3, 2001. To the extent that the remaining criteria are met, our stock price at that time will be used to measure the amount of compensation expense to be recorded. ChipLogic is a developer of high-performance integrated circuits and software focused on the convergence of voice, broadband access and network protocol processing.

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- On January 16, 2001, we acquired Staccato Systems, Inc. (Staccato) of Mountain View, California. The total purchase price of \$23.8 million consisted of \$23 million in cash and the assumption of \$0.8 million of outstanding Staccato stock options. Additional contingent cash consideration of up to \$7 million is payable if certain operational objectives are achieved and will be accounted for as additional goodwill. Approximately \$1.8 million of the contingent consideration has been paid as of November 3, 2001. Staccato is in the field of audio synthesis technology.

During the third quarter of fiscal 2000, we acquired BCO Technologies plc (BCO), a company with operations in Belfast, Northern Ireland, in a cash-for-stock transaction valued at approximately \$163 million. BCO is a leading supplier of silicon-on-insulator wafers used for fabricating micromechanical optical devices for optical switching and communications applications. In connection with this acquisition, we recorded approximately \$158 million of goodwill. There was no in-process research and development write-off related to this acquisition. During the second quarter of fiscal 1999, we acquired two DSP tools companies, White Mountain DSP, Inc. of Nashua, New Hampshire (WM) and Edinburgh Portable Compilers Limited, of Edinburgh, Scotland (EPC). The total cost of these acquisitions was approximately \$23 million with additional cash consideration of up to a maximum of \$10 million payable if the acquired companies achieve certain revenue and operational objectives. As of November 3, 2001 all of the additional cash consideration has been paid and accounted for as additional purchase price. In connection with the acquisitions of WM and EPC, we recorded a charge of \$5.1 million for the write-off of in-process research and development.

Selling, marketing, general and administrative (SMG&A) expenses were \$287 million in fiscal 2001, a decrease of \$6 million from the \$293 million in fiscal 2000. As a percentage of sales, SMG&A increased to 12.6% for fiscal 2001 from 11.4% in fiscal 2000 as a result of reduced revenue levels. In fiscal 2000, SMG&A expenses increased \$83 million from \$210 million in fiscal 1999. As a percentage of sales, SMG&A decreased to 11.4% in fiscal 2000 from 14.5% in fiscal 1999 as a result of increased sales.

During fiscal 2001, we recorded a special charge of approximately \$47 million related to cost reduction actions taken in response to the current economic climate. The actions consisted of workforce reductions in manufacturing, which included a decision to consolidate worldwide manufacturing operations and rationalize production planning and quality activities. Workforce reductions also occurred, to a lesser extent, in selling, marketing and administrative areas. As of November 3, 2001, the cost reductions included severance and fringe benefit costs of approximately \$30 million for approximately 1,200 employees in the U.S., Europe, Asia and the Philippines, of which approximately half of these employees were terminated as of November 3, 2001. The special charge also included approximately \$12 million related to the abandonment of equipment resulting from the consolidation of worldwide manufacturing operations. We believe that the workforce reductions will result in annual salary savings of approximately \$40 million with a \$27 million reduction in cost of sales and a \$13 million reduction in operating expenses. The impact in fiscal 2002 of these cost savings is expected to be approximately \$30 million, with a \$20 million reduction in cost of sales and a \$10 million reduction in operating expenses.

Our operating income was \$408 million, or 17.9% of sales, for fiscal 2001, compared to \$767 million, or 29.8% of sales, in fiscal 2000 and \$243 million, or 16.7% of net sales, for fiscal 1999.

In fiscal 1999, we sold 78% of our investment in WaferTech, LLC (WaferTech) to other WaferTech partners in exchange for \$105 million in cash, which was equal to 78% of the carrying value of the equity ownership at October 31, 1998. During the first quarter of fiscal 2001, we completed the sale of our remaining investment in WaferTech to Taiwan Semiconductor Manufacturing Company for approximately \$61 million in cash. We recorded a pretax realized gain on the sale of this investment of approximately \$28 million. In the third quarter of fiscal 2000, we sold our investment in Chartered Semiconductor Manufacturing Pte. Ltd. We received proceeds of approximately \$65 million in cash and realized a pretax gain of approximately \$44 million. These realized gains are included in other nonoperating income.

Interest expense was \$62 million in fiscal 2001 compared to \$6 million in fiscal 2000. The increase in interest expense was the result of a full year of interest expense on our \$1,200 million of 4.75% convertible subordinated notes, which were issued in the fourth quarter of fiscal 2000. Interest income was \$133 million in fiscal 2001 compared to \$63 million in fiscal 2000. The increase in interest income was due to higher cash

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balances from increased cash flow as well as the unused portion of the funds obtained from the issuance of our 4.75% convertible subordinated notes.

Our effective income tax rate remained relatively flat at 29.7% for fiscal 2001 as compared to 29.9% for fiscal 2000, primarily due to a shift in the mix of worldwide profits offset by a taxable gain on the sale of our remaining WaferTech investment. Our effective income tax rate increased to 29.9% for fiscal 2000 from 23.6% in fiscal 1999 due to increased profits in higher tax jurisdictions, principally the United States.

Fiscal 2001 net income was \$356 million, or 15.7% of sales, and diluted earnings per share was \$0.93 compared to net income in fiscal 2000 of \$607 million and diluted earnings per share of \$1.59. The fiscal 2001 decrease in net income from fiscal 2000 was primarily due to reduced revenue levels. Net income increased to \$607 million, or 23.6% of sales, in fiscal 2000 from \$197 million, or 13.6% of sales, in fiscal 1999.

Effective October 29, 2000, the Company adopted Statement of Financial Accounting Standards No. 133, (FAS 133), "Accounting for Derivative Instruments and Hedging Activities," as amended by Statement of Financial Accounting Standards No. 138, "Accounting for Certain Instruments and Certain Hedging Activities." FAS 133 requires that an entity recognize all derivatives as either assets or liabilities and measure such instruments at fair market value. Under certain circumstances, a portion of the derivative's gain or loss is initially reported as a component of other comprehensive income (OCI) until the hedged transaction affects earnings. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income immediately. While the adoption of FAS 133 on October 29, 2000 did not have a material impact on operations, it resulted in a \$5 million loss recognized in OCI, which was reclassified into earnings during fiscal 2001.

In August 2001 the Company adopted Securities and Exchange Commission Staff Accounting Bulletin 101, (SAB 101), "Revenue Recognition in Financial Statements." SAB 101 summarizes the application of generally accepted accounting principles to revenue recognition in financial statements. The adoption of this standard did not have a material effect on our financial position or results of operations.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, (FAS 141), "Business Combinations" and No. 142, (FAS 142), "Goodwill and Other Intangible Assets." FAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting. Under FAS 142, which is effective for fiscal years beginning after December 15, 2001, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statement. Other intangible assets will continue to be amortized over their estimated useful lives. We must adopt these new pronouncements no later than November 2002, with earlier adoption permitted. Application of the non-amortization provisions of FAS 142 is expected to result in an increase in net income of approximately \$54 million, beginning in fiscal 2003. We will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2003 and have not yet determined what effect, if any, the adoption of FAS 141 and 142 will have on our financial position or results of operations.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, (FAS 143), "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It also applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. We are required to adopt FAS 143 in the first quarter of fiscal 2003 and we do not believe that the adoption of FAS 143 will have a material effect on our financial position or results of operations.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, (FAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses the financial accounting and reporting for the impairment of long-lived assets. This statement supersedes Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions for

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the disposal of a segment of a business of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." We are required to adopt FAS 144 in the first quarter of fiscal 2003 and we have not yet determined what effect, if any, the adoption of FAS 144 will have on our financial position or results of operations.

The impact of inflation on our business during the past three years has not been significant.

### **Liquidity and Capital Resources**

At November 3, 2001, we had \$2,793 million of cash, cash equivalents and short-term investments compared to \$2,235 million at October 28, 2000. The \$558 million increase in cash, cash equivalents and short-term investments was primarily due to operating cash inflows of \$844 million (37% of fiscal 2001 sales) offset by \$297 million of capital spending. In fiscal 2000, our cash, cash equivalents and short-term investments increased by \$1,473 million primarily due to operating cash inflows of \$705 million, or 27% of sales in fiscal 2000, and \$1,172 million of proceeds from the issuance of long-term debt offset by \$275 million of capital spending and \$169 million of acquisition-related spending. Investing activities used \$1,220 million in fiscal 2001 and \$456 million in fiscal 2000, while financing activities generated \$2 million in fiscal 2001 and \$1,130 million in fiscal 2000.

Accounts receivable of \$218 million at the end of fiscal 2001 decreased \$246 million or 53% from \$464 million at the end of fiscal 2000. This decrease resulted principally from a \$382 million decrease in sales from the fourth quarter of fiscal 2000 to the fourth quarter of fiscal 2001. Days sales outstanding improved from 52 days at the end of the fourth quarter of fiscal 2000 to 46 days at the end of the fourth quarter of fiscal 2001. As a percentage of annualized fourth quarter sales, accounts receivable was 12.9% at the end of fiscal 2001, down from 14.4% at the end of fiscal 2000.

Inventories decreased \$85 million, or 26%, from fiscal 2000 to \$247 million at the end of fiscal 2001. Days cost of sales in inventory increased by 21 days to 111 days as of the end of the fourth quarter of fiscal 2001. The decrease in inventory in absolute dollar terms is attributable to production decreases in response to reduced demand for our products as well as an increase in inventory reserves and a sharp curtailment of spending on wafers supplied by external foundries. We employ a variety of consistent methodologies to determine the amount of inventory reserves necessary. While a portion of the reserve is determined via reference to the age of inventory and lower of cost or market calculations, an element of the reserve is subject to significant judgments by us about future demand for our inventory. Although we believe that we have used our best efforts and information to estimate future demand, due to the uncertain economic times and the difficulty inherent in predicting future results, it is possible that actual demand for our products will differ from our estimates. If actual demand for products is less than our estimates, additional reserves for existing inventories may need to be reflected in future periods.

Net additions to property, plant and equipment of \$297 million for fiscal 2001 were funded with a combination of cash on hand and cash generated from operations. Capital spending in fiscal 2001 increased slightly from the \$275 million incurred in fiscal 2000. Significant fiscal 2001 capital additions included new facilities in Wilmington, MA; Sunnyvale, CA; and Limerick, Ireland. We currently plan to make capital expenditures of approximately \$70 million in fiscal 2002. Depreciation expense is expected to increase to \$171 million in fiscal 2002 from \$158 million in fiscal 2001.

We acquired five companies during fiscal 2001, as more fully described in "Results of Operations." Total cash used to purchase these companies was approximately \$38 million.

During the fourth quarter of fiscal 2000, we issued \$1,200 million of 4.75% Convertible Subordinated Notes due 2005 (2005 Notes), with semiannual interest payments on April 1 and October 1 of each year, commencing April 1, 2001. The 2005 Notes are convertible, at the option of the holder, into our common stock at any time unless previously redeemed or repurchased, at a conversion price of \$129.78 per share, subject to adjustment in certain events. The net proceeds of the offering were \$1,172 million after payment of

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the underwriting discount and expenses of the offering, which will be amortized over the term of the 2005 Notes. After the issuance of the 2005 Notes, our debt-to-equity ratio increased to 53%.

At November 3, 2001, our principal sources of liquidity were \$2,793 million of cash and cash equivalents and short-term investments.

We believe that our existing sources of liquidity and cash expected to be generated from future operations, together with current and anticipated available long-term financing, will be sufficient to fund operations, capital expenditures and research and development efforts for the foreseeable future.

### **Forward-Looking Statements**

The "Management Analysis" and other sections of this report contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the industry and markets in which we operate, management's beliefs and assumptions made by management. In addition, other written or oral statements that constitute forward-looking statements may be made by or on our behalf. Words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. (See "Factors That May Affect Future Results" below.) Therefore, actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

### **Factors That May Affect Future Results**

*Our future operating results are difficult to predict and may materially fluctuate.*

Our future operating results are difficult to predict and may be materially affected by a number of factors, including the timing of new product announcements or introductions by us or our competitors, competitive pricing pressures, fluctuations in manufacturing yields, adequate availability of wafers and manufacturing capacity, the risk that our backlog could decline significantly, our ability to hire, retain and motivate adequate numbers of engineers and other qualified employees to meet the demands of our largest customers, changes in product mix, and the effect of adverse changes in economic conditions in the United States and international markets. In addition, the semiconductor market has historically been cyclical and subject to significant economic downturns at various times, including the recent decline in demand experienced during fiscal 2001. Our business is subject to rapid technological changes and there can be no assurance, depending on the mix of future business, that products stocked in inventory will not be rendered obsolete before we ship them. As a result of these and other factors, there can be no assurance that we will not experience material fluctuations in future operating results on a quarterly or annual basis.

*Our future success depends upon our ability to develop and market new products and enter new markets.*

Our success significantly depends on our continued ability to develop and market new products. There can be no assurance that we will be able to develop and introduce new products in a timely manner or that new products, if developed, will achieve market acceptance. In addition, our growth is dependent on our continued ability to penetrate new markets where we have limited experience and competition is intense. There can be no assurance that the markets we serve will grow in the future, that our existing and new products will meet the requirements of these markets, that our products will achieve customer acceptance in these markets, that competitors will not force prices to an unacceptably low level or take market share from us, or that we can achieve or maintain profits in these markets. Also, some of our customers in these markets are less well established, which could subject us to increased credit risk.

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*We may not be able to compete successfully in the semiconductor industry in the future.*

The semiconductor industry is intensely competitive. Some of our competitors have greater technical, marketing, manufacturing and financial resources than we do. Our competitors also include emerging companies attempting to sell products to specialized markets that we serve. Our competitors have, in some cases, developed and marketed products having similar design and functionality as our products. There can be no assurance that we will be able to compete successfully in the future against existing or new competitors or that our operating results will not be adversely affected by increased price competition.

*We may not be able to satisfy increasing demand for our products, and increased production may lead to overcapacity and lower prices.*

The cyclical nature of the semiconductor industry has resulted in sustained or short-term periods when demand for our products has increased or decreased rapidly. We and the semiconductor industry experienced a period of rapid decreases in demand in fiscal 2001. As a result we have overcapacity due to the expansion of our production facilities and increased access to third-party foundries. However, we cannot be sure that we will not encounter unanticipated production problems at either our own facilities or at third-party foundries, or that our capacity will be sufficient to satisfy demand for our products. We believe that other semiconductor manufacturers have expanded their production capacity over the past several years. This expansion by us and our competitors and the continuation of the decline in the demand for semiconductor products that began in early fiscal 2001, has led to overcapacity in our target markets, which has resulted in a year over year decline in our revenue rate and could lead to price erosion that would adversely affect our operating results.

*We rely on third-party subcontractors and manufacturers for some industry-standard wafers and assembly/test services and therefore cannot control their availability or conditions of supply.*

We rely, and plan to continue to rely, on assembly and test subcontractors and on third-party wafer fabricators to supply most of our wafers that can be manufactured using industry-standard digital processes. This reliance involves several risks, including reduced control over delivery schedules, manufacturing yields and costs.

*Our revenues may not increase enough to offset the expense of additional capacity.*

Our capacity additions resulted in a significant increase in operating expenses. If revenue levels do not increase enough to offset these additional expense levels, our future operating results could be adversely affected. In addition, asset values could be impaired if the additional capacity is underutilized for an extended period of time.

*We rely on manufacturing capacity located in geologically unstable areas, which could affect the availability of supplies and services.*

We, and many companies in the semiconductor industry, rely on internal manufacturing capacity located in California and Taiwan as well as wafer fabrication foundries in Taiwan and other sub-contractors in geologically unstable locations around the world. This reliance involves risks associated with the impact of earthquakes on us and the semiconductor industry, including temporary loss of capacity, availability and cost of key raw materials and equipment, and availability of key services including transport. In addition, California has recently experienced intermittent interruption in the availability of electricity. To date, the impact on us has been negligible. However, electricity is a critical resource for us, without which our products could not be manufactured at factories exposed to continued lengthy power interruptions.

*We are exposed to economic, political and other risks through our significant worldwide operations.*

During fiscal 2001, 61% of our revenues were derived from customers in international markets. We have manufacturing facilities outside the United States in Ireland, the United Kingdom, the Philippines and Taiwan. In addition to being exposed to the ongoing economic cycles in the semiconductor industry, we are also subject to the economic and political risks inherent in international operations and their impact on the

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U.S. economy in general, including the risks associated with ongoing uncertainties and political and economic instability in many countries around the world as well as the economic disruption from acts of terrorism, particularly in the aftermath of the terrorist attacks of September 11, 2001 and the response to them of the United States and its allies. These risks include air transportation disruptions, expropriation, currency controls and changes in currency exchange rates, tax and tariff rates and freight rates, and social and political unrest. Although we engage in hedging transactions to reduce our exposure to currency exchange rate fluctuations, there can be no assurance that our competitive position will not be adversely affected by changes in the exchange rate of the U.S. dollar against other currencies.

*We are involved in frequent litigation regarding intellectual property rights, which could be costly to defend and could require us to redesign products or pay significant royalties.*

The semiconductor industry is characterized by frequent claims and litigation involving patent and other intellectual property rights. We have from time to time received, and may in the future receive, claims from third parties asserting that our products or processes infringe their patents or other intellectual property rights. In the event a third party makes a valid intellectual property claim and a license is not available on commercially reasonable terms, we could be forced either to redesign or to stop production of products incorporating that intellectual property, and our operating results could be materially and adversely affected. Litigation may be necessary to enforce patents or other of our intellectual property rights or to defend us against claims of infringement, and this litigation can be costly and divert the attention of key personnel. See Note 10 of the Notes to our Consolidated Financial Statements for the fiscal year ended November 3, 2001 for information concerning pending litigation that involves us. An adverse outcome in this litigation could have a material adverse effect on our consolidated financial position or on our consolidated results of operations or cash flows in the period in which the litigation is resolved.

*Leverage and debt service obligations may adversely affect our cash flow.*

We have a substantial amount of outstanding indebtedness. We may be unable to generate cash sufficient to pay the principal of, interest on, and other amounts due in respect of, this indebtedness when due. Our substantial leverage could have significant negative consequences. This substantial leverage could increase our vulnerability to general adverse economic and industry conditions. It may require the dedication of a substantial portion of our expected cash flow from operations to service the indebtedness, thereby reducing the amount of our expected cash flow available for other purposes, including capital expenditures. It may also limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

## **ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**

We have fixed rate debt obligations and interest rate swap and cap agreements. An increase in interest rates would not significantly increase interest expense due to the fixed nature of our debt obligations. Because of the size and structure of these obligations, a 100 basis point increase in interest rates would not result in a material change in our interest expense or the fair value of the debt obligations and related interest rate swap and cap agreements for fiscal 2001 and fiscal 2000. The fair value of our investment portfolio would not be significantly impacted by either a 100 basis point increase or decrease in interest rates in fiscal 2001 and fiscal 2000 due mainly to the short-term nature of the major portion of our investment portfolio. The related interest income would change by approximately \$6 million for each 100 basis point increase or decrease in interest rates for fiscal 2001 on a weighted average portfolio maturity of 93 days. The impact of a 100 basis point increase or decrease in interest rates on interest income was not material for fiscal 2000 due mainly to the relative insignificance of interest income to the consolidated pretax income.

As more fully described in Note 2 (i) in the Notes to our Consolidated Financial Statements, we regularly hedge our non-U.S. dollar-based exposures by entering into forward exchange contracts. The terms of these contracts are for periods matching the duration of the underlying exposure and generally range from three months up to one year. The short-term nature of these contracts has resulted in these instruments having insignificant fair values at November 3, 2001 and October 28, 2000. Currently, our largest foreign currency

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exposure is against the Euro, primarily because Europe has a higher proportion of local currency denominated expenses. Relative to foreign currency exposures existing at November 3, 2001 and October 28, 2000, a 10% unfavorable movement in foreign exchange rates would not expose us to significant losses in earnings or cash flows or significantly diminish the fair value of our foreign currency financial instruments, primarily due to the short lives of the affected financial instruments that effectively hedge substantially all of our year-end exposures against fluctuations in foreign currency exchange rates. The calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar. In addition to the direct effects of changes in exchange rates, such changes typically affect the volume of sales or the foreign currency sales price as competitors' products become more or less attractive. Our sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency selling prices.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## ANALOG DEVICES, INC.

CONSOLIDATED STATEMENTS OF INCOME  
Years Ended November 3, 2001, October 28, 2000 and October 30, 1999

(thousands, except per share amounts)	2001	2000	1999
<b>Revenue</b>			
Net sales	\$2,276,915	\$2,577,547	\$1,450,379
<b>Costs and Expenses</b>			
Cost of sales	1,008,095	1,116,520	735,643
Gross margin	1,268,820	1,461,027	714,736
Operating expenses:			
Research and development	464,686	389,997	252,966
Selling, marketing, general and administrative	287,146	293,364	209,639
Purchased in-process research and development	9,500	—	5,140
Amortization of intangibles	52,795	10,569	4,073
Special charge	47,007	—	—
	861,134	693,930	471,818
Operating income	407,686	767,097	242,918
Equity in loss of WaferTech	—	—	1,149
Nonoperating (income) expenses:			
Interest expense	62,474	5,841	10,146
Interest income	(132,647)	(63,430)	(26,726)
Other	(29,385)	(41,025)	809
	(99,558)	(98,614)	(15,771)
<b>Earnings</b>			
Income before income taxes	507,244	865,711	257,540
Provision for income taxes:			
Payable currently	180,790	271,123	44,139
Deferred	(29,923)	(12,544)	16,582
	150,867	258,579	60,721
Net income	\$ 356,377	\$ 607,132	\$ 196,819
Shares used to compute earnings per share — Basic	359,113	353,363	336,482
Shares used to compute earnings per share — Diluted	381,962	381,157	362,904
Earnings per share — Basic	\$ 1.00	\$ 1.71	\$ 0.58
Earnings per share — Diluted	\$ 0.93	\$ 1.59	\$ 0.55

See accompanying Notes.

## ANALOG DEVICES, INC.

CONSOLIDATED BALANCE SHEETS  
November 3, 2001 and October 28, 2000

(thousands, except share amounts)	2001	2000
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$1,364,949	\$1,736,421
Short-term investments	1,428,278	498,844
Accounts receivable less allowances of \$15,398 (\$13,156 in 2000)	218,151	463,912
Inventories	246,852	332,094
Deferred tax assets	139,418	108,989
Prepaid expenses and other current assets	37,271	27,754
Total current assets	3,434,919	3,168,014
<b>Property, Plant and Equipment, at Cost</b>		
Land and buildings	294,598	238,550
Machinery and equipment	1,447,639	1,260,572
Office equipment	92,792	86,930
Leasehold improvements	130,528	120,710
	1,965,557	1,706,762
Less accumulated depreciation and amortization	1,057,615	927,536
Net property, plant and equipment	907,942	779,226
<b>Other Assets</b>		
Investments	246,505	217,755
Intangible assets, net	229,330	192,698
Other assets	66,167	53,644
Total other assets	542,002	464,097
	\$4,884,863	\$4,411,337
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Short-term borrowings and current portion of obligations under capital leases	\$ 6,432	\$ 15,690
Accounts payable	79,784	213,196
Deferred income on shipments to distributors	142,011	140,369
Income taxes payable	121,844	86,625
Accrued liabilities	177,877	194,017
Total current liabilities	527,948	649,897
<b>Noncurrent Liabilities</b>		
Long-term debt and obligations under capital leases	1,206,038	1,212,960
Deferred income taxes	51,345	51,205
Other noncurrent liabilities	256,506	193,625
Total noncurrent liabilities	1,513,889	1,457,790
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred stock, \$1.00 par value, 471,934 shares authorized, none outstanding	—	—
Common stock, \$0.16 2/3 par value, 600,000,000 shares authorized, 363,353,954 shares issued (357,969,010 in 2000)	60,560	59,663
Capital in excess of par value, net of deferred compensation of \$25,892 (\$3,980 in 2000)	713,427	526,820
Retained earnings	2,074,320	1,717,943
Accumulated other comprehensive income	(204)	2,841
	2,848,103	2,307,267
Less 103,630 shares in treasury, at cost (45,186 in 2000)	5,077	3,617

Total stockholders' equity

2,843,026

2,303,650

\$4,884,863

\$4,411,337

See accompanying Notes.

## ANALOG DEVICES, INC.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**Years Ended November 3, 2001, October 28, 2000 and October 30, 1999**

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income*	Treasury Stock	
	Shares	Amount				Shares	Amount
(thousands)							
<b>BALANCE, OCTOBER 31, 1998</b>	164,093	\$27,349	\$248,970	\$ 913,992	\$ 6,025	(3,783)	\$(67,947)
<b>Activity in Fiscal 1999</b>							
Net income — 1999				196,819			
Issuance of stock under stock plans and other, net of repurchases	2,974	496	28,159			621	8,177
Conversion of 3.50% Subordinated Notes	10,982	1,830	228,074				
Compensation recognized under Restricted Stock Plan			2,799				
Tax benefit — stock option exercises			15,104				
Securities valuation adjustment					6,629		
Translation adjustment					(445)		
<b>BALANCE, OCTOBER 30, 1999</b>	178,049	29,675	523,106	1,110,811	12,209	(3,162)	(59,770)
<b>Activity in Fiscal 2000</b>							
Net income — 2000				607,132			
Issuance of stock under stock plans and other, net of repurchases	6,205	1,033	52,148			(93)	(8,850)
Compensation recognized under Restricted Stock Plan			2,231				
Tax benefit — stock option exercises			43,566				
Two-for-one stock split	173,715	28,955	(94,231)			3,210	65,003
Securities valuation adjustment					(6,629)		
Translation adjustment					(2,739)		
<b>BALANCE, OCTOBER 28, 2000</b>	357,969	59,663	526,820	1,717,943	2,841	(45)	(3,617)
<b>Activity in Fiscal 2001</b>							
Net income — 2001				356,377			
Issuance of stock under stock plans and other, net of repurchases	3,923	654	19,664			358	20,371
Compensation recognized under Restricted Stock Plan			2,114				
Tax benefit — stock option exercises			90,581				
Issuance of common stock in connection with acquisitions	1,462	243	98,274				
Deferred stock-based compensation related to acquisitions (net of amortization of \$8,884)			(24,026)				
Securities valuation adjustment					(226)		
Translation adjustment					(2,995)		
Derivative instruments designated as cash flow hedges					176		
Common stock repurchased						(417)	(21,831)
<b>BALANCE, NOVEMBER 3, 2001</b>	363,354	\$60,560	\$713,427	\$2,074,320	\$ (204)	(104)	\$( 5,077)

\* Comprehensive income, i.e., net income plus other comprehensive income, totaled \$353 million in 2001, \$598 million in 2000 and \$203 million in 1999.

See accompanying Notes.

## ANALOG DEVICES, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended November 3, 2001, October 28, 2000 and October 30, 1999**

(thousands)	2001	2000	1999
<b>Operations</b>			
Cash flows from operations:			
Net income	\$ 356,377	\$ 607,132	\$ 196,819
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	210,490	156,671	142,598
Gain on sale of investments	(28,084)	(43,857)	—
Non-cash portion of special charge	14,073	—	—
Purchased in-process research and development	9,500	—	5,140
Equity in loss of WaferTech, net of dividends	—	—	1,149
Tax benefit — stock option exercises	90,581	30,073	15,104
Deferred income taxes	(29,923)	(12,544)	16,582
Change in operating assets and liabilities:			
Decrease (increase) in accounts receivable	237,344	(213,696)	(55,980)
Decrease (increase) in inventories	82,267	(82,321)	28,424
(Increase) decrease in prepaid expenses and other current assets	(8,507)	(9,706)	4,292
Increase in investments — trading	(60,751)	(123,165)	(28,098)
(Decrease) increase in accounts payable, deferred income and accrued liabilities	(138,609)	233,408	57,096
Increase in income taxes payable	35,712	20,204	27,774
Increase in other liabilities	73,143	142,306	31,525
Total adjustments	487,236	97,373	245,606
Net cash provided by operations	843,613	704,505	442,425
<b>Investments</b>			
Cash flows from investments:			
Additions to property, plant and equipment, net	(297,236)	(274,837)	(77,500)
Purchase of short-term investments available-for-sale	(2,963,922)	(868,394)	(628,823)
Maturities of short-term investments available-for-sale	2,034,488	776,103	263,845
Proceeds from sale of investment	60,936	64,641	—
(Increase) decrease in long-term investments	(4,750)	348	101,501
Payments for acquisitions, net of cash acquired	(38,469)	(169,270)	(20,499)
(Increase) decrease in other assets	(11,427)	15,192	3,435
Net cash used for investments	(1,220,380)	(456,217)	(358,041)
<b>Financing Activities</b>			
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	—	1,172,135	—
Repurchase of common stock	(21,831)	—	—
Proceeds from employee stock plans	39,947	42,864	19,050
Payments on capital lease obligations	(10,746)	(8,293)	(14,109)
Net (decrease) increase in variable rate borrowings	(5,473)	(76,416)	1,776
Net cash provided by financing activities	1,897	1,130,290	6,717
Effect of exchange rate changes on cash	3,398	1,952	1,459
Net (decrease) increase in cash and cash equivalents	(371,472)	1,380,530	92,560
Cash and cash equivalents at beginning of year	1,736,421	355,891	263,331
Cash and cash equivalents at end of year	\$ 1,364,949	\$1,736,421	\$ 355,891

See accompanying Notes.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended November 3, 2001, October 28, 2000 and October 30, 1999  
(all tabular amounts in thousands except per share amounts)

**1. Description of Business**

Analog Devices, Inc. (Analog, ADI or the Company) is a world leader in the design, manufacture and marketing of high-performance analog, mixed-signal and digital signal processing (DSP) integrated circuits (ICs) used in signal processing applications.

A significant portion of Analog's revenues comes from the communications market. Communications applications include wireless handsets and base stations, as well as products used for high-speed access to the Internet, including ICs used in ADSL and cable modems and central office networking equipment.

Analog serves the PC market with products that monitor and manage power usage, process signals used in flat panel displays and multimedia projectors and enable PCs to provide CD-quality audio. Analog also serves the high-end consumer market with ICs used in such products as digital cameras and camcorders, DVD players and surround sound audio systems. Analog provides a broad array of products to the industrial market, including products for automatic test equipment and for the digital speed control of AC motors.

**2. Summary of Significant Accounting Policies**

*a. Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated. The Company's fiscal year ends on the 52-week or 53-week period ending on the Saturday closest to the last day in October. Fiscal year 2001 was a 53-week year, and fiscal years 2000 and 1999 were each 52-week years.

Certain amounts reported in previous years have been reclassified to conform to the fiscal 2001 presentation, such reclassifications were immaterial.

*b. Cash, Cash Equivalents and Investments*

Cash and cash equivalents are highly liquid investments with insignificant interest rate risk and maturities of three months or less at the time of acquisition. Investments with maturities between three and twelve months at time of acquisition are considered short-term investments. Cash, cash equivalents and short-term investments consist primarily of commercial paper and government agency discount notes, but also include certificates of deposit, bank time deposits, institutional money market funds and bankers' acceptances. Long-term investments consist of mutual funds, commercial paper and bank money market funds that are acquired to generate returns that offset changes in certain liabilities related to deferred compensation arrangements, as well as equity securities.

The Company classifies its investments in readily marketable debt and equity securities as "held-to-maturity," "available-for-sale" or "trading" at the time of purchase and such designation is evaluated as of each balance sheet date. Held-to-maturity securities, which are carried at amortized cost, include only those securities the Company has the positive intent and ability to hold to maturity. Securities, such as bank time deposits, which by their nature are typically held to maturity, are classified as such. The Company's other readily marketable investments are classified as either available-for-sale or trading. Available-for-sale securities are carried at fair value with unrealized gains and losses, net of related tax, if any, reported as a separate component of stockholders' equity. Realized gains and losses, as well as interest, dividends and capital gains distributions on all securities, are included in earnings.

Cash equivalents and short-term investments classified as available-for-sale were \$2,624 million and \$2,167 million at November 3, 2001 and October 28, 2000, respectively and those classified as held-to-maturity were \$108 million and \$7 million at November 3, 2001 and October 28, 2000, respectively. All of

## ANALOG DEVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

these securities have contractual maturities of twelve months or less at time of acquisition. Because of the short term to maturity, and hence relative price insensitivity to changes in market interest rates, amortized cost approximates fair value for all of these securities. As such, no realized or unrealized gains or losses were recorded during each of these years. There were no cash equivalents or short-term investments classified as trading at November 3, 2001 and October 28, 2000.

Long-term investments classified as trading were \$243 million and \$182 million at November 3, 2001 and October 28, 2000, respectively, and were based on published market quotes on November 2, 2001 and October 27, 2000. Gross realized and unrealized gains and losses from trading securities were not material in fiscal 2001, fiscal 2000 and fiscal 1999. There were approximately \$1.7 million and \$0 at November 3, 2001 and October 28, 2000, respectively, of long-term investments classified as available-for-sale. Gross realized gains on available-for-sale investments were \$0 in fiscal 2001 and \$44 million in fiscal 2000. Gross unrealized gains and losses were not material in fiscal 2001 and fiscal 2000. There were no long-term investments classified as held-to-maturity at November 3, 2001 and October 28, 2000.

**c. Supplemental Cash Flow Statement Information**

	2001	2000	1999
Cash paid during the fiscal year for:			
Income taxes	\$52,353	\$208,441	\$19,582
Interest, net of capitalized interest	\$51,720	\$ 4,039	\$10,808

The Company's primary non-cash financing activities in fiscal 2001 resulted from its current year acquisitions for which 1,462,066 shares of common stock were issued (valued at approximately \$81.8 million) and the assumption of stock options with a fair value of approximately \$4.9 million. As a result, the Company recognized approximately \$8.8 million of stock-based compensation expense. The Company's non-cash financing activities in fiscal 1999 consisted solely of the conversion of its 3.50% Convertible Subordinated Notes into common stock.

**d. Inventories**

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventories at November 3, 2001 and October 28, 2000 were as follows:

	2001	2000
Raw materials	\$ 18,221	\$ 17,505
Work in process	159,463	179,918
Finished goods	69,168	134,671
Total inventories	\$246,852	\$332,094

**e. Property, Plant and Equipment**

Property, plant and equipment is recorded at cost less allowances for depreciation and amortization. The straight-line method of depreciation is used for all classes of assets for financial statement purposes; both straight-line and accelerated methods are used for income tax purposes. Capitalized leases and leasehold improvements are amortized based upon the lesser of the term of the lease or the useful life of the asset. Depreciation and amortization are based on the following useful lives:

Buildings & Building Equipment	Up to 25 years
Machinery & Equipment	3-10 years
Office Equipment	3-8 years

## ANALOG DEVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Total depreciation and amortization of property, plant and equipment was \$158 million, \$143 million and \$139 million in fiscal 2001, 2000 and 1999, respectively. Property, plant and equipment included \$77 million and \$82 million of capitalized leases in fiscal 2001 and 2000, net of \$56 million and \$49 million, respectively, of accumulated depreciation.

Property, plant and equipment includes capitalized interest of \$6.5 million and \$0 as of November 3, 2001 and October 28, 2000, respectively.

**f. Goodwill and Other Acquisition-related Intangibles**

	2001	2000
Goodwill	\$219,674	\$181,219
Other intangibles	9,656	11,479
Total	\$229,330	\$192,698

Other intangibles include items such as acquired trained workforce and customer base. Goodwill and intangibles are evaluated for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable based on the related undiscounted cash flows. Amortization lives are principally five years.

The balances shown are net of total accumulated amortization of \$88 million and \$35 million as of November 3, 2001 and October 28, 2000, respectively. Amortization of goodwill and other acquisition-related intangibles was \$53 million, \$13 million and \$4 million for fiscal 2001, 2000 and 1999, respectively.

**g. Grant Accounting**

The Company's manufacturing facility in Limerick, Ireland has received various grants from the Industrial Development Authority of the Republic of Ireland. These grants include capital, employment and research and development grants. Capital grants for the acquisition of property and equipment are netted against the related capital expenditures and amortized as a credit to depreciation expense over the useful life of the related asset. Employment grants, which relate to employee hiring and training, and research and development grants are recognized in earnings in the period in which the related expenditures are incurred by the Company.

**h. Translation of Foreign Currencies**

The functional currency for the Company's foreign sales operations is the applicable local currency. Gains and losses resulting from translation of these foreign currencies into U.S. dollars are accumulated in other comprehensive income. Transaction gains and losses are included in income currently, including those at the Company's principal foreign manufacturing operations where the functional currency is the U.S. dollar. Foreign currency transaction gains or losses included in other expenses, net, were not material in fiscal 2001, 2000 and 1999.

**i. Derivative Instruments and Hedging Agreements**

The Company enters into forward foreign exchange contracts, foreign currency option contracts and currency swap agreements to offset certain operational and balance sheet exposures from the impact of changes in foreign currency exchange rates. Such exposures result from the portion of the Company's operations, assets and liabilities that are denominated in currencies other than the U.S. dollar, primarily the Japanese yen and the Euro. These foreign exchange contracts are entered into to support product sales, purchases and financing transactions made in the normal course of business, and accordingly, are not speculative in nature.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Effective October 29, 2000, the Company adopted Statement of Financial Accounting Standards No. 133, (FAS 133), "Accounting for Derivative Instruments and Hedging Activities," as amended by Statement of Financial Accounting Standards No. 138, (FAS 138), "Accounting for Certain Instruments and Certain Hedging Activities." As a result of the adoption of FAS 133, the Company recognizes all derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of the derivative financial instruments are either recognized periodically in earnings or in stockholders' equity as a component of other comprehensive income (OCI) depending on whether the derivative financial instrument qualifies for hedge accounting. Changes in fair values of derivatives not qualifying for hedge accounting are reported in earnings. While the adoption of FAS 133 on October 29, 2000 did not have a material impact on operations, it resulted in a \$5 million loss recognized in OCI, which was reclassified into earnings during fiscal 2001.

Foreign Exchange Exposure Management — The Company has significant international sales and purchase transactions in foreign currencies and has a policy of hedging forecasted and actual foreign currency risk with forward foreign exchange contracts. The Company's forward foreign exchange contracts are denominated in Japanese yen and the Euro and are for periods consistent with the terms of the underlying transactions, generally one year or less. Derivative instruments are employed to eliminate or minimize certain foreign currency exposures that can be confidently identified and quantified. In accordance with FAS 133, hedges related to anticipated transactions are designated and documented at the inception of the respective hedge as cash flow hedges and evaluated for effectiveness monthly. As the terms of the forward contract and the underlying transaction are matched at inception, forward contract effectiveness is calculated by comparing the fair value of the contract to the change in the forward value of the anticipated transaction, with the effective portion of the gain or loss on the derivative instrument reported as a component of OCI in stockholders' equity and reclassified into earnings in the same period during which the hedged transaction affects earnings. Any residual change in fair value of the instruments, or ineffectiveness, is recognized immediately in other expense. No ineffectiveness was recognized in fiscal 2001.

Additionally, the Company enters into foreign currency forward contracts to hedge the gains and losses generated by the remeasurement of certain recorded assets and liabilities in a non-functional currency. Changes in the fair value of these undesignated hedges are recognized in other expense immediately as an offset to the changes in the fair value of the asset or liability being hedged.

Derivative financial instruments involve, to a varying degree, elements of market and credit risk not recognized in the consolidated financial statements. The market risk associated with these instruments resulting from currency exchange rate or interest rate movements is expected to offset the market risk of the underlying transactions, assets and liabilities being hedged. The counterparties to the agreements relating to the Company's foreign exchange and interest rate instruments consist of a number of major international financial institutions with high credit ratings. The Company does not believe that there is significant risk of nonperformance by these counterparties because the Company continually monitors the credit ratings of such counterparties, and limits the financial exposure with any one financial institution. While the contract or notional amounts of derivative financial instruments provide one measure of the volume of these transactions, they do not represent the amount of the Company's exposure to credit risk. The amounts potentially subject to credit risk (arising from the possible inability of counterparties to meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparties' obligations under the contracts exceed the obligations of the Company to the counterparties.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Accumulated Derivative Gains or Losses**

The following table summarizes activity in other comprehensive income related to derivatives classified as cash flow hedges held by the Company during the period of October 29, 2000 (the date of adoption of FAS 133) through November 3, 2001:

Cumulative effect of adopting FAS 133 as of October 29, 2000	\$ 5,142
Less: Reclassifications into earnings from other comprehensive income	(5,142)
	<u>0</u>
Changes in fair value of derivatives — (gain) loss	(5,478)
Reclassification into earnings from other comprehensive income	5,302
	<u>          </u>
Accumulated (gain) loss included in other comprehensive income	<u>\$ (176)</u>

All of the accumulated gain will be reclassified into earnings over the next twelve months.

**j. Fair Values of Financial Instruments**

The following estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

	November 3, 2001		October 28, 2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,364,949	\$ 1,364,949	\$ 1,736,421	\$ 1,736,421
Short-term investments	1,428,278	1,428,278	498,844	498,844
Long-term investments	242,502	242,502	181,751	181,751
<b>Liabilities:</b>				
Short-term borrowings	(434)	(434)	(5,752)	(5,752)
Long-term debt, including current portion	(1,200,000)	(1,145,400)	(1,200,261)	(1,101,261)
<b>Foreign Currency Instruments and Interest Rate Agreements:</b>				
Interest rate swap and cap agreements	(62)	(62)	(33)	(62)
Forward foreign currency exchange contracts	928	928	(3,555)	(3,817)
Foreign currency option contracts	—	—	75	22

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

**Cash, cash equivalents and short-term investments** — The carrying amounts of these items are a reasonable estimate of their fair value due to the short term to maturity and readily available market for these types of investments.

**Long-term investments** — The fair value of long-term investments is based on quoted market values.

**Short-term borrowings** — The carrying amounts of these variable-rate borrowings approximate fair value due to the short period of time to maturity.

**Long-term debt** — The fair value of long-term debt is based on quoted market values.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Interest rate swap and cap agreements** — The fair value of interest rate swap and cap agreements is obtained from dealer quotes. These values represent the estimated amount the Company would receive or pay to terminate the agreements taking into consideration current interest rates.

**Forward foreign currency exchange contracts** — The estimated fair value of forward foreign currency exchange contracts is based on the estimated amount at which they could be settled based on forward market exchange rates.

**Foreign currency option contracts** — The fair value of foreign currency option contracts is obtained from dealer quotes. This value represents the estimated net amount the Company would receive or pay to terminate the agreement.

**k. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Such estimates relate to the useful lives of fixed assets, allowances for doubtful accounts and customer returns, inventory reserves, potential reserves relating to litigation matters, accrued liabilities and other reserves. Actual results could differ from those estimates, and such differences may be material to the financial statements.

**l. Concentrations of Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of investments and trade accounts receivable.

The Company maintains cash, cash equivalents and short-term investments with high credit quality financial institutions and monitors the amount of credit exposure to any one financial institution.

The Company sells its products to distributors and original equipment manufacturers involved in a variety of industries including industrial automation, instrumentation, military/aerospace and, to an increasing degree, communications, computers and peripherals, and high-performance consumer electronics. The Company has adopted credit policies and standards to accommodate growth in these markets. The Company performs continuing credit evaluations of its customers' financial condition and although the Company generally does not require collateral, letters of credit may be required from its customers in certain circumstances. Reserves are provided for estimated amounts of accounts receivable that may not be collected.

**m. Concentration of Other Risks**

The semiconductor industry is characterized by rapid technological change, competitive pricing pressures and cyclical market patterns. The Company's financial results are affected by a wide variety of factors, including general economic conditions worldwide, economic conditions specific to the semiconductor industry, the timely implementation of new manufacturing technologies, the ability to safeguard patents and intellectual property in a rapidly evolving market and reliance on assembly and test subcontractors, third-party wafer fabricators and independent distributors. In addition, the semiconductor market has historically been cyclical and subject to significant economic downturns at various times. The Company is exposed to the risk of obsolescence of its inventory depending on the mix of future business. As a result, the Company may experience significant period-to-period fluctuations in future operating results due to the factors mentioned above or other factors.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**n. Revenue Recognition**

Prior to fiscal 2001, the Company recognized revenue from product sales to end users upon shipment. In fiscal 2001, the Company adopted the provisions of Securities and Exchange Commission Staff Accounting Bulletin 101. Accordingly revenue from product sales to end-users is now recognized when title passes, which for shipments to certain foreign countries is subsequent to product shipment. Title for these shipments ordinarily passes within a week of shipment. This accounting change did not materially impact the Company's results of operations for fiscal 2001. For all periods presented, revenue is deferred on sales made through distributors until the distributors resell the products to the end users.

**o. Comprehensive Income**

Components of comprehensive income include net income and certain transactions that have generally been reported in the consolidated statement of stockholders' equity. Other comprehensive income is comprised of net income, currency translation adjustments, available-for-sale securities valuation adjustments, and net gain or loss on derivative instruments designated as cash flow hedges.

**p. Advertising Expense**

Advertising costs are expensed as incurred. Advertising expense was \$10.4 million in fiscal 2001, \$16.1 million in fiscal 2000 and \$13.0 million in fiscal 1999.

**q. Income Taxes**

Deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted income tax rates and laws that will be in effect when the temporary differences are expected to reverse. Additionally, deferred tax assets and liabilities are separated into current and noncurrent amounts based on the classification of the related assets and liabilities for financial reporting purposes.

**r. Earnings Per Share of Common Stock**

Basic earnings per share is computed based only on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of future issues of common stock relating to stock option programs and other potentially dilutive securities. In calculating diluted earnings per share, the dilutive effect of stock options is computed using the average market price for the period. In fiscal 2001, a total of 9,246,720 shares related to convertible debt financing and 7,533,121 shares related to outstanding stock options are excluded from the earnings per share calculation because the effect would be anti-dilutive, but these shares could be dilutive in the future. In fiscal 2000, a total of 2,311,680 shares related

## ANALOG DEVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

to convertible debt financing are excluded from the earnings per share calculation because the effect would be anti-dilutive. The following table sets forth the computation of basic and diluted earnings per share:

	2001	2000	1999
<b>Basic:</b>			
Net income	\$356,377	\$607,132	\$196,819
Weighted shares outstanding	359,113	353,363	336,482
Earnings per share	\$ 1.00	\$ 1.71	\$ 0.58
<b>Diluted:</b>			
Net income	\$356,377	\$607,132	\$196,819
Interest related to convertible subordinated notes, net of tax	—	—	1,906
Net income	\$356,377	\$607,132	\$198,725
Weighted shares outstanding	359,113	353,363	336,482
Assumed exercise of common stock equivalents	22,849	27,794	18,822
Assumed conversion of subordinated notes	—	—	7,600
Weighted average common and common equivalent shares	381,962	381,157	362,904
Earnings per share	\$ 0.93	\$ 1.59	\$ 0.55

**s. Stock-Based Compensation**

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" and, accordingly, recognizes no compensation expense for the stock option grants. The Company has granted restricted stock for a fixed number of shares to employees for nominal consideration. Compensation expense related to restricted stock awards is recorded ratably over the restriction period.

**t. New Accounting Standards**

Effective October 29, 2000, the Company adopted Statement of Financial Accounting Standards No. 133, (FAS 133), "Accounting for Derivative Instruments and Hedging Activities," as amended by Statement of Financial Accounting Standards No. 138, "Accounting for Certain Instruments and Certain Hedging Activities." FAS 133 requires that an entity recognize all derivatives as either assets or liabilities and measure such instruments at fair market value. Under certain circumstances, a portion of the derivative's gain or loss is initially reported as a component of other comprehensive income (OCI) until the hedged transaction affects earnings. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income immediately. While the adoption of FAS 133 on October 29, 2000 did not have a material impact on operations, it resulted in a \$5 million loss recognized in OCI, which was reclassified into earnings during fiscal 2001.

In August 2001 the Company adopted Securities and Exchange Commission Staff Accounting Bulletin 101, (SAB 101), "Revenue Recognition in Financial Statements." SAB 101 summarizes the application of generally accepted accounting principles to revenue recognition in financial statements. The adoption of this standard did not have a material effect on our financial position or results of operations.

In June 2001 the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, (FAS 141), "Business Combinations" and No. 142, (FAS 142), "Goodwill and Other

## ANALOG DEVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Intangible Assets.” FAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting. Under FAS 142, which is effective for fiscal years beginning after December 15, 2001, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statement. Other intangible assets will continue to be amortized over their estimated useful lives. We must adopt these new pronouncements no later than November 2002 with earlier adoption permitted. Application of the non-amortization provisions of FAS 142 is expected to result in an increase in net income of approximately \$54 million, beginning in fiscal 2003. We will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2003 and have not yet determined what effect, if any, the adoption of FAS 141 and 142 will have on our financial position or results of operations.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, (FAS 143), “Accounting for Asset Retirement Obligations,” which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It also applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. We are required to adopt FAS 143 in the first quarter of fiscal 2003 and we do not believe that the adoption of FAS 143 will have a material effect on our financial position or results of operations.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, (FAS 144), “Accounting for the Impairment or Disposal of Long-Lived Assets,” which addresses the financial accounting and reporting for the impairment of long-lived assets. This statement supersedes Statement of Financial Accounting Standards No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of” and the accounting and reporting provisions for the disposal of a segment of a business of APB Opinion No. 30, “Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.” We are required to adopt FAS 144 in the first quarter of fiscal 2003 and we have not yet determined what effect, if any, the adoption of FAS 144 will have on our financial position or results of operations.

**u. Stock Split**

On February 15, 2000, the Company’s Board of Directors approved a 2-for-1 split of the Company’s common stock, effected as a 100% stock dividend on March 15, 2000 by the distribution of one share of common stock for every share held on the record date of February 28, 2000. In connection with the stock split the number of common stock purchase rights that are associated with each share of common stock was reduced from one to one-half. All historical per share amounts in this report have been restated to reflect the split.

**3. Acquisitions**

During the first quarter of fiscal 2001, the Company completed the following acquisitions:

Acquired Company	Purchase Price	Maximum Contingent Consideration
Thomas Neuroth AG (Neuroth)	\$ 4,500	\$ 4,000
Signal Processing Associates Pty. Ltd. (SPA)	3,800	500
Integrated Micro Instruments (IMI)	1,900	2,700
ChipLogic, Inc. (ChipLogic)	68,300	29,000
Staccato Systems, Inc. (Staccato)	23,800	7,000

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- On October 31, 2000, the Company acquired Thomas Neuroth AG (Neuroth) of Vienna, Austria for approximately \$4.5 million in cash, with additional contingent cash consideration of up to \$4 million payable if certain operational objectives are achieved. As of November 3, 2001, \$1 million of the contingent consideration has been paid and charged to operations. The remaining \$3 million of contingent consideration will be accounted for as goodwill. Neuroth is a developer of highly integrated circuits for symmetric DSL broadband access.
- On November 10, 2000, the Company acquired Signal Processing Associates Pty. Ltd., (SPA) of Victoria, Australia for approximately \$3.8 million in cash, with additional contingent cash consideration of \$0.5 million payable if certain operation objectives are achieved. The contingent consideration will be recorded as compensation expense. SPA is a developer and supplier of voice processing and fax/data relay software for telecommunications applications.
- On December 18, 2000, the Company acquired Integrated Micro Instruments, Inc. (IMI) of Berkeley, California for approximately \$1.1 million in cash and 13,750 shares of our common stock valued at approximately \$0.8 million. An additional 50,000 shares of common stock valued at a fixed amount of approximately \$2.7 million are issuable over the next five years upon the satisfaction of certain conditions. The contingent consideration will be recorded as compensation expense. IMI develops MEMS process designs.
- On January 4, 2001, the Company acquired ChipLogic, Inc. (ChipLogic) of Santa Clara, California. The total purchase price of \$68.3 million consisted of cash of approximately \$4 million, approximately 1 million shares of our common stock valued at \$60.2 million and the assumption of \$4.1 million of outstanding ChipLogic stock options. Approximately \$9.5 million represented the purchase price of in-process technology that had not yet reached technological feasibility, had no alternative future use and was charged to operations during fiscal 2001. An additional \$8 million of cash consideration and 489,375 shares of common stock is due if certain operational objectives are achieved and will be accounted for as compensation expense. Of these shares, 249,375 contingent shares have a fixed value of approximately \$13 million which is being charged to operations over a five year period. The remaining 240,000 shares are subject to performance-based criteria. During fiscal 2001, approximately \$4.2 million of expense was recorded related to the issuance of 117,592 shares of common stock associated with the achievement of certain of these objectives. The remaining performance based shares had a value of approximately \$3.8 million as of November 3, 2001. To the extent that the remaining criteria are met, our stock price at that time will be used to measure the amount of compensation expense to be recorded. ChipLogic is a developer of high-performance integrated circuits and software focused on the convergence of voice, broadband access and network protocol processing.
- On January 16, 2001, the Company acquired Staccato Systems, Inc. (Staccato) of Mountain View, California. The total purchase price of \$23.8 million consisted of \$23 million in cash and the assumption of \$0.8 million of outstanding Staccato stock options. Additional contingent cash consideration of up to \$7 million is payable if certain operational objectives are achieved and will be accounted for as additional goodwill. Approximately \$1.8 million of the contingent consideration has been paid as of November 3, 2001. Staccato is in the field of audio synthesis technology.

Pro forma results of operations for Neuroth, SPA, IMI, ChipLogic and Staccato have not been provided herein as they were not material to the Company on either an individual or an aggregate basis. The results of operations of each acquisition are included in the Company's consolidated statement of income from the date of each acquisition.

During the third quarter of fiscal 2000, the Company acquired BCO Technologies plc (BCO), a company with operations in Belfast, Northern Ireland, in a cash-for-stock transaction valued at approximately \$163 million. The acquisition was accounted for as a purchase, and the excess of the purchase price over the

## ANALOG DEVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

fair value of the assets acquired was allocated to workforce in place and goodwill, which are being amortized on the straight-line basis over five years. In connection with the acquisition, the Company recorded approximately \$158 million of goodwill. There was no in-process research and development write-off related to this acquisition.

During the second quarter of fiscal 1999, the Company acquired two DSP tools companies, White Mountain DSP, Inc. (WM) of Nashua, New Hampshire, and Edinburgh Portable Compilers Limited (EPC), of Edinburgh, Scotland. The total cost of these acquisitions was approximately \$21 million in cash and \$2 million in common stock of the Company, with additional cash consideration of up to a maximum of \$10 million (to be accounted for as additional goodwill) payable if the acquired companies achieve certain revenue and operational objectives. All of the contingent consideration has been paid. These acquisitions were accounted for as purchases, and the excess of the purchase price over the fair value of the assets acquired was allocated to existing technology, workforce in place, trade names and goodwill, which are being amortized on the straight-line basis over periods ranging from six to ten years. In connection with these acquisitions, the Company recorded a charge of \$5.1 million representing the write-off of in-process research and development.

Pro forma results of operations for BCO, WM and EPC have not been provided herein as they were not material to the Company on either an individual or an aggregate basis. The results of operations of each acquisition are included in the Company's consolidated statement of income from the date of each acquisition.

#### 4. Industry and Geographic Segment Information

The Company operates in two segments: the design, manufacture and marketing of a broad range of integrated circuits, which comprises approximately 97% of the Company's revenue, and the design, manufacture and marketing of a range of assembled products, which accounts for the remaining 3% of the Company's revenue. Effectively, the Company operates in one reportable segment.

##### *Geographic Information*

The Company operates in four major geographic areas. The following geographic area data include trade sales based upon point of sale and long-lived assets based upon physical location. The predominant countries comprising European operations are England, France, Germany and Ireland.

Geographic Segment Information	2001	2000	1999
<b>Sales</b>			
North America, including export	\$ 885,584	\$1,151,853	\$ 667,563
Europe, including export	553,928	504,669	313,598
Japan	340,951	350,822	206,810
Southeast Asia	496,452	570,203	262,408
Total sales	<u>\$2,276,915</u>	<u>\$2,577,547</u>	<u>\$1,450,379</u>
<b>Long-lived Assets</b>			
North America	\$ 583,125	\$ 466,612	\$ 417,854
Europe	463,920	388,439	178,361
Japan	89,139	115,644	75,841
Southeast Asia	1,088	1,229	1,313
Total long-lived assets	<u>\$1,137,272</u>	<u>\$ 971,924</u>	<u>\$ 673,369</u>

## ANALOG DEVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**5. Special Charge**

During fiscal 2001, the Company recorded special charges of approximately \$47 million related to cost reduction actions taken in response to the current economic climate. The actions consisted of workforce reductions in manufacturing and, to a lesser extent, in selling, marketing and administrative areas as well as a decision to consolidate worldwide manufacturing operations and rationalize production planning and quality activities.

Through November 3, 2001, the cost reductions included severance and fringe benefit costs of \$29.6 million for approximately 1,200 employees in the U.S., Europe, Asia and the Philippines of which approximately half of these employees have been terminated as of November 3, 2001. The special charge also included \$11.6 million related to the abandonment of equipment resulting from the consolidation of worldwide manufacturing operations and \$5.8 million of other charges primarily related to equipment and lease cancellation fees.

A summary of the special charge is as follows:

	Total Charges	Incurred to Date		Balance November 3, 2001
		Non-cash	Cash	
Workforce reductions	\$29,636	—	(6,178)	\$23,458
Abandonment of equipment	11,573	(11,573)	—	—
Other	5,798	(2,500)	—	3,298
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$47,007	(14,073)	(6,178)	\$26,756
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The Company expects to complete the above actions within the next nine to twelve months.

**6. Investments**

Investments at November 3, 2001 and October 28, 2000 were as follows:

	2001	2000
WaferTech, LLC	\$ —	\$ 32,852
Other	246,505	184,903
	<u>          </u>	<u>          </u>
Total investments	\$246,505	\$217,755
	<u>          </u>	<u>          </u>

During the first quarter of fiscal 2001, the Company sold its investment in WaferTech, realizing a pretax gain on the sale of this investment of approximately \$28 million. This gain is included in other nonoperating income.

Other investments consist primarily of long-term investments in mutual funds and bank money market funds, which are related to the Company's deferred compensation plan and are offset by a corresponding noncurrent liability to the plan participants. These investments are classified as trading.

Investments are stated at fair value, which is based on market quotes, interest rates or management estimates, as appropriate. Adjustments to fair value of investments classified as available-for-sale are recorded as an increase or decrease in stockholders' equity. Adjustments to fair value of, and income pertaining to, other investments are recorded in operating expense.

## ANALOG DEVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**7. Accrued Liabilities**

Accrued liabilities at November 3, 2001 and October 28, 2000 consisted of the following:

	2001	2000
Accrued compensation and benefits	\$ 66,261	\$ 99,984
Special charge	26,756	—
Other	84,860	94,033
Total accrued liabilities	<u>\$177,877</u>	<u>\$194,017</u>

**8. Debt and Credit Facilities**

Long-term debt at November 3, 2001 and October 28, 2000 consisted of the following:

	2001	2000
4.75% Convertible Subordinated Notes due October 1, 2005	\$1,200,000	\$1,200,000
Other	—	261
Total long-term debt	<u>\$1,200,000</u>	<u>\$1,200,261</u>

On October 1, 2000, the Company issued \$1,200 million of 4.75% Convertible Subordinated Notes due October 1, 2005 (2005 Notes) with semiannual interest payments on April 1 and October 1 of each year, commencing April 1, 2001. The 2005 Notes are convertible, at the option of the holder, into the Company's common stock at any time unless previously redeemed or repurchased, at a conversion price of \$129.78 per share, subject to adjustment in certain events. The net proceeds of the offering were \$1,172 million after payment of the underwriting discount and expenses of the offering, which will be amortized over the term of the 2005 Notes.

There were \$0.4 million and \$5.8 million of other short-term borrowings outstanding at November 3, 2001 and October 28, 2000, respectively, which were at prevailing market rates for the respective currencies. Borrowings under the Company's credit agreement and lines of credit are generally due within six months.

**9. Lease Commitments**

The Company leases certain of its facilities and equipment under various operating and capital leases that expire at various dates through 2035. The lease agreements frequently include renewal and escalation clauses and purchase provisions and require the Company to pay taxes, insurance and maintenance costs.

Total rental expense under operating leases was approximately \$21 million in fiscal 2001, \$19 million in fiscal 2000 and \$17 million in fiscal 1999.

## ANALOG DEVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following is a schedule of future minimum lease payments under capital leases and rental payments required under long-term operating leases at November 3, 2001:

Fiscal Years	Operating Leases	Capital Leases
2002	\$13,600	\$ 6,486
2003	9,939	5,863
2004	8,869	191
2005	8,249	4
2006	5,504	—
Later Years	9,003	—
	—————	—————
Total	\$55,164	12,544
	—————	
Less amount representing interest		(508)
		—————
Present value of minimum lease payments		\$12,036
		—————

**10. Commitments and Contingencies***Litigation*

The Company was a defendant in a federal lawsuit brought in the United States District Court for the Southern District of New York by U.S. Philips Corporation (Philips). On October 2, 2000, Philips filed suit against the Company, Cirrus Logic, Inc., Cypress Semiconductor Corporation, Linear Technology Corporation and Standard Microsystems Corporation alleging patent infringement and seeking injunctive relief, treble damages for alleged willful infringement and unspecified damages. Subsequent to fiscal 2001, the Company entered into a settlement with Philips that was not material.

The Company is a defendant in a federal lawsuit brought in the United States District Court for the Northern District of California by Linear Technology Corporation (LTC). On June 26, 1997, LTC filed suit against the Company, Impala Linear Corporation, Toyoda Automatic Loom Works, Ltd., Maxim Integrated Products, Inc. and Unitrode Corporation alleging patent infringement and seeking injunctive relief and unspecified damages. The case was originally scheduled for trial on liability issues beginning on September 7, 1999. The original district judge recused himself and the case was reassigned three times before the Court granted several motions for summary judgment of non-infringement in favor of the defendants in September 2001. The Court also denied LTC's motion for summary judgment of infringement and willful infringement against the Company. On October 4, 2001, the Court indicated that it would stay the matter and certify similar issues as to the Company to allow all parties to take appeals to the United States Court of Appeals for the Federal Circuit ("Federal Circuit"). LTC, Maxim and Unitrode have filed cross appeals with the Federal Circuit and have begun the briefing process. On November 1, 2001, LTC and the Company jointly petitioned the Federal Circuit to permit them to address the issues certified for appeal. The joint petition is still pending. While the Company can give no assurance that it will prevail in this litigation, it believes that resolution of this litigation will not have a material adverse effect on the Company's consolidated financial position, although an unfavorable outcome could have a material adverse effect on the Company's results of operations or cash flow in the quarter, or annual period in which this matter is resolved.

Patent infringement suits were pending against the Company's wholly owned French subsidiary by Sextant Avionique, S.A. (Sextant) in France claiming that the Company's accelerometer infringes certain Sextant patents. Sextant has obtained a court ruling that the Company infringed Sextant's French patents, and therefore, unless the decision is reversed, the Company will be unable to manufacture or sell any infringing accelerometers in France. The Company is currently appealing the French court's decision and expects a decision to be rendered by the French court in fiscal 2002. The Company does not believe that the French

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

court's decision will have a material adverse effect on its consolidated financial position or consolidated results of operations.

From time to time as a normal incidence of the nature of the Company's business, various claims, charges and litigation are asserted or commenced against the Company arising from, or related to, contractual matters, patents, trademarks, personal injury, environmental matters, product liability, insurance coverage and personnel and employment disputes. As to such claims and litigation, the Company can give no assurance that it will prevail. However, the Company does not believe that these matters will have a material adverse effect on the Company's consolidated financial position, although an adverse outcome of any of these matters could have a material adverse effect on the Company's consolidated results of operations or cash flow in the quarter, or annual period in which one or more of these matters are resolved.

**11. Stockholders' Equity**

*Stock Plans*

In fiscal 1998, the stockholders approved the 1998 Stock Option Plan (1998 Plan), which provides for the issuance of nonstatutory and incentive stock options to purchase up to 30 million shares of common stock. In March 2000, the stockholders approved an amendment to the 1998 Plan to increase the shares reserved for issuance by an additional 34 million shares. Officers, employees, directors, consultants and advisors of the Company and its subsidiaries are eligible to be granted options under this plan at a price not less than 100% (110% in the case of incentive stock options granted to 10% or greater stockholders) of the fair market value of the common stock at the time the option is granted. The Company's 1988 Stock Option Plan was terminated upon adoption of the 1998 Stock Option Plan; however, options to purchase common stock remain outstanding under the plan.

While the Company may grant options to employees, which become exercisable at different times or within different periods, the Company has generally granted options to employees that are exercisable on a cumulative basis in annual installments of 33 1/3% each on the third, fourth and fifth anniversaries of the date of grant.

Under the 1994 Director Option Plan, which was amended in 1998, each non-employee director was granted annually a non-statutory option to purchase 21,000 shares of common stock at an exercise price equal to the fair market value on the date of grant. Up to 1999, each newly elected non-employee director received a grant of an option to purchase 21,000 shares of Common Stock upon his or her election to the Board (the "Initial Grant"). The 1994 Director Option Plan was amended in 1999 whereby the number of shares of Common Stock underlying the Initial Grant was increased from 21,000 to 60,000. On December 8, 1999, the 1994 Director Option Plan was terminated (effective March 14, 2000), and the Board of Directors authorized that from and after March 14, 2000, all options granted to non-employee directors will be granted under the Company's 1998 Plan, under which each non-employee director is granted annually a non-statutory stock option to purchase 20,000 shares (formerly 25,000 shares) of common stock at an exercise price equal to the fair market value on the date of grant. The options granted to directors under the 1998 Plan, as well as the options previously granted under the 1994 Director Option Plan, are exercisable on a cumulative basis in annual installments of 33 1/3% each on the first, second and third anniversaries of the date of grant. The Company also has options outstanding under the 1992 Director Option Plan that are exercisable on a cumulative basis in annual installments of 33 1/3% each on the third, fourth and fifth anniversaries of the date of grant.

## ANALOG DEVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Information with respect to activity under the stock option plans is set forth below:

Stock Option Activity	Shares Available for Grant	Options Outstanding	
		Number	Weighted Average Price Per Share
<b>Balance, October 31, 1998</b>	17,706	51,418	\$ 6.39
Options granted	(1,320)	1,320	\$17.26
Options exercised	—	(6,054)	\$ 4.26
Options canceled	1,302	(1,302)	\$ 7.65
<b>Balance, October 30, 1999</b>	17,688	45,382	\$ 6.97
Additional shares authorized for 1998 Stock Option Plan	34,000	—	—
Options granted	(15,833)	15,833	\$31.03
Options exercised	—	(7,210)	\$ 5.05
Options canceled	1,755	(1,755)	\$14.02
<b>Balance, October 28, 2000</b>	37,610	52,250	\$14.31
Options granted	(17,041)	17,041	\$44.00
Options exercised	—	(3,939)	\$ 6.74
Options canceled	1,615	(1,615)	\$24.37
<b>Balance, November 3, 2001</b>	22,184	63,737	\$22.28

The following table summarizes information about options outstanding at November 3, 2001:

Range of Exercise Price	Outstanding Options			Options Exercisable	
	Number Outstanding at 11/03/01	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at 11/03/01	Weighted Average Exercise Price
\$ 0.98-\$ 9.93	30,952	5.7	\$ 6.87	12,775	\$ 6.66
\$ 9.94-\$19.85	1,102	6.7	\$13.23	268	\$13.36
\$19.86-\$29.78	14,381	8.1	\$28.67	16	\$26.56
\$29.79-\$59.55	16,565	9.1	\$43.81	59	\$38.87
\$59.56-\$99.25	737	8.7	\$74.27	17	\$74.28
<b>\$ 0.98-\$99.25</b>	<b>63,737</b>	<b>7.2</b>	<b>\$22.28</b>	<b>13,135</b>	<b>\$ 7.05</b>

The Company has an employee stock purchase plan (ESPP) that allows eligible employees to purchase, through payroll deductions, shares of the Company's common stock at 85% of the fair market value at specified dates. Employees purchased 390,719 shares in fiscal 2001 (1,011,624 and 1,312,800 in fiscal 2000 and fiscal 1999, respectively) for \$15.2 million (\$16.5 million and \$12.9 million in fiscal 2000 and fiscal 1999, respectively). At November 3, 2001, approximately 2,991,000 common shares, net of retirements, remained available for issuance under the ESPP.

Under the 1991 Restricted Stock Plan, which expired in December 2000, a maximum of 5,400,000 shares of common stock were authorized for awards by the Company to key employees for nominal consideration. Shares awarded from the plan were restricted as to transfer, usually for a period of five years and, under certain conditions, were subject to repurchase by the Company at the original purchase price per share. There were no additional shares awarded under the restricted stock plans in either fiscal 2001 or fiscal 2000. During fiscal 2001, 2000 and 1999, \$2.1 million, \$2.2 million, and \$2.8 million, respectively, of compensation was charged to

## ANALOG DEVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

expense. At November 3, 2001, there were 1,221,982 shares of common stock, net of forfeitures, reserved for issuance under the 1991 Restricted Stock Plan.

As of November 3, 2001, a total of 90,134,362 common shares were reserved for issuance under the Company's stock plans.

*Common Stock Repurchase*

In November 2000, the Board of Directors authorized the Company to repurchase up to 15 million shares of its common stock. As of November 3, 2001, the Company had purchased 417,400 shares of its common stock at an average purchase price of \$52.30 per share. The repurchased shares are held as treasury shares and are being used for the employee stock purchase plan and other benefit plans.

*Stock-Based Compensation*

As permitted under Statement of Financial Accounting Standards No. 123 (FAS 123), "Accounting for Stock-Based Compensation," the Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations, in accounting for stock-based awards to employees. Under APB 25, the Company generally recognizes no compensation expense with respect to such awards.

Pro forma information regarding net income and earnings per share is required by FAS 123 for awards granted after October 28, 1995 as if the Company had accounted for its stock-based awards to employees under the fair value method of FAS 123. The fair value of the Company's stock-based awards to employees was estimated using a Black-Scholes option pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's stock-based awards to employees have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock-based awards to employees. The fair value of the Company's stock-based awards to employees was estimated assuming no expected dividends and the following weighted average assumptions:

	Options			ESPP		
	2001	2000	1999	2001	2000	1999
Expected life (years)	5.3	4.9	6.1	1.0	1.0	1.0
Expected stock price volatility	65.4%	56.6%	52.9%	89.9%	72.5%	64.1%
Risk-free interest rate	5.7%	6.0%	5.3%	3.9%	6.3%	5.1%

The following is a summary of weighted average grant date values generated by application of the Black-Scholes model:

	Weighted Average Grant Date Value		
	2001	2000	1999
Stock option plans	\$26.95	\$16.90	\$9.77
ESPP	\$37.82	\$ 7.88	\$4.40

As required under FAS 123, the reported net income and diluted earnings per share have been presented to reflect the impact had the Company been required to include the amortization of the Black-Scholes option

## ANALOG DEVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

value as expense. For purposes of this disclosure, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's pro forma information follows:

	2001	2000	1999
Pro forma net income	\$191,598	\$526,615	\$162,872
Pro forma diluted earnings per share	\$ 0.50	\$ 1.38	\$ 0.45

The effects of applying FAS 123 on pro forma disclosures are not likely to be representative of the effects on pro forma disclosures of future years. Because FAS 123 is applicable only to options granted subsequent to October 28, 1995, the pro forma effect is not fully reflected for fiscal year 1999.

*Preferred Stock*

The Company has 471,934 authorized shares of \$1.00 par value Preferred Stock. The Board of Directors is authorized to fix designations, relative rights, preferences and limitations on the preferred stock at the time of issuance. An aggregate of 300,000 shares of preferred stock have been designated as Series A Junior Participating Preferred Stock for issuance in connection with the Company's Stockholder Rights Plan.

*Common Stock Purchase Rights*

In March 1998, the Board of Directors adopted a Stockholder Rights Plan (the Stockholder Rights Plan) that replaced a plan adopted by the Board in 1988. Pursuant to the Stockholder Rights Plan, after giving effect to the Company's two-for-one stock split effected on March 15, 2000, each share of the Company's Common Stock (Common Stock) currently has an associated one-half of a right. Under certain circumstances, each whole right would entitle the registered holder to purchase from the Company one one-thousandth share of Series A Junior Participating Preferred Stock at a purchase price of \$180 in cash, subject to adjustment.

The rights are not exercisable and cannot be transferred separately from the Common Stock until ten business days (or such later date as may be determined by the Board of Directors) after (i) the public announcement that a person or group of affiliated or associated persons has acquired (or obtained rights to acquire) beneficial ownership of 15% or more of Common Stock or (ii) the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 20% or more of the outstanding Common Stock. If and when the rights become exercisable, each holder of a right shall have the right to receive, upon exercise, that number of shares of Common Stock (or in certain circumstances, cash property or other securities of the Company) that equals the exercise price of the right divided by 50% of the current market price (as defined in the Stockholder Rights Plan) per share of Common Stock at the date of the occurrence of such event. In the event at any time after any person becomes an acquiring person, (i) the Company is consolidated with, or merged with and into, another entity and the Company is not the surviving entity of such consolidation or merger or if the Company is the surviving entity, but shares of its outstanding common stock are changed or exchanged for stock or securities or cash or any other property, or (ii) 50% or more of the Company's assets or earning power is sold or transferred, each holder of a right shall thereafter have the right to receive upon exercise, that number of shares of common stock of the acquiring company that equals the exercise price of the right divided by 50% of the current market price of such common stock at the date of the occurrence of the event.

The rights have certain anti-takeover effects, in that they would cause substantial dilution to a person or group that attempts to acquire a significant interest in the Company on terms not approved by the Board of Directors. The rights expire on March 17, 2008 but may be redeemed by the Company for \$.001 per right at any time prior to the tenth day following a person's acquisition of 15% or more of the Company's Common Stock. So long as the rights are not separately transferable, each new share of Common Stock issued will have one-half of a right associated with it.

## ANALOG DEVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**12. Retirement Plans**

The Company and its subsidiaries have various savings and retirement plans covering substantially all employees. The Company maintains a defined contribution plan for the benefit of its eligible United States employees. This plan provides for Company contributions of up to 5% of each participant's total eligible compensation. In addition, the Company contributes an amount equal to each participant's contribution, if any, up to a maximum of 2% of each participant's total eligible compensation, plus 50% of the contributions between 2% and 4%. The Company also has various defined benefit pension and other retirement plans for certain non U.S. employees that are consistent with local statutes and practices. The total expense related to all of the Company's retirement plans was approximately \$28 million in fiscal 2001, \$26 million in fiscal 2000 and \$21 million in fiscal year 1999, which primarily consisted of costs related to the U.S. defined contribution plan. Also included in total expense is pension expense related to non-U.S. defined benefit plans of approximately \$3 million for each of the fiscal years 2001, 2000 and 1999.

*Non-U.S. Plan Disclosures*

The Company's funding policy for its foreign defined benefit pension plans is consistent with the local requirements of each country. The plans' assets consist primarily of U.S. and non-U.S. equity securities, bonds, property and cash.

Net annual periodic pension cost of non-U.S. plans is presented in the following table:

	2001	2000	1999
Service cost of benefits earned during the year	\$ 4,334	\$ 4,110	\$ 4,072
Interest cost on projected benefit obligation	3,689	3,085	3,273
Expected return on plan assets	(4,534)	(4,044)	(4,494)
Net amortization and deferrals	(12)	(187)	295
Net periodic pension cost	<u>\$ 3,477</u>	<u>\$ 2,964</u>	<u>\$ 3,146</u>

Obligation and asset data of the plans at each fiscal year end is presented in the following table:

	2001	2000
<b>Benefit Obligation:</b>		
Beginning balance	\$63,306	\$54,914
Service cost	4,334	4,110
Interest cost	3,689	3,085
Plan participants' contributions	1,512	1,299
Benefits paid	(2,400)	(709)
Actuarial loss	2,952	5,773
Exchange rate adjustment	(4,334)	(5,166)
Ending balance	<u>\$69,059</u>	<u>\$63,306</u>

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	2001	2000
<b>Plan Assets at Fair Value:</b>		
Beginning balance	\$70,364	\$66,157
Actual return on plan assets	(8,868)	8,583
Company contributions	2,461	2,125
Plan participants' contributions	1,512	1,299
Benefits paid	(2,400)	(709)
Exchange rate adjustment	(4,787)	(7,091)
Ending balance	\$58,282	\$70,364
<b>Reconciliation of Funded Status:</b>		
Fund status — Plan assets lower than (in excess of) benefit obligation	\$10,777	\$ (7,058)
Unrecognized net (loss) gain	(4,494)	13,496
Unrecognized prior service cost	(843)	(1,477)
Net amount recognized	\$ 5,440	\$ 4,961
<b>Amounts recognized in the balance sheet consist of:</b>		
Prepaid benefit cost	\$ (2,108)	\$ (2,587)
Accrued benefit cost	7,548	7,548
Total	\$ 5,440	\$ 4,961

Accrued benefit cost at November 3, 2001 includes projected benefit obligations of \$23.3 million and accumulated benefit obligations of \$16.9 million, versus plan assets of \$11.5 million for five plans whose obligations exceed their assets. Accrued benefit cost at October 28, 2000 includes projected benefit obligations of \$13.2 million and accumulated benefit obligations of \$9.7 million, versus plan assets of \$4.8 million for three plans whose obligations exceeded their assets.

The range of assumptions used for the non-U.S. defined benefit plans reflects the different economic environments within the various countries. The projected benefit obligation was determined using the following assumptions:

	2001	2000
Discount rate	2.5%-12%	3%-12%
Rate of increase in compensation levels	2.5%-12%	3%-10%
Expected long-term returns on assets	5%-12%	5%-12%

## ANALOG DEVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**13. Income Taxes**

The reconciliation of income tax computed at the U.S. federal statutory rates to income tax expense is as follows:

	2001	2000	1999
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
<b>Income tax provision reconciliation:</b>			
Tax at statutory rate	\$177,535	\$302,999	\$ 90,139
Irish income subject to lower tax rate	(22,265)	(35,605)	(25,557)
State income taxes, net of federal benefit	3,225	6,448	260
Research and development tax credits	(9,650)	(11,288)	(2,700)
Extraterritorial/income exclusion/ Foreign Sales Corporation	(7,700)	(5,392)	(4,923)
Amortization of goodwill	8,628	1,037	1,189
Net foreign tax in excess of U.S. federal statutory tax rate	497	428	(156)
Other, net	597	(48)	2,469
<b>Total income tax provision</b>	<b>\$150,867</b>	<b>\$258,579</b>	<b>\$ 60,721</b>

For financial reporting purposes, income before income taxes includes the following components:

	2001	2000	1999
<b>Pretax income:</b>			
Domestic	\$217,457	\$622,331	\$114,333
Foreign	289,787	243,380	143,207
	<b>\$507,244</b>	<b>\$865,711</b>	<b>\$257,540</b>

The components of the provision for income taxes are as follows:

	2001	2000	1999
<b>Current:</b>			
Federal	\$113,334	\$224,413	\$19,949
Foreign	62,494	37,205	23,790
State	4,962	9,505	400
<b>Total current</b>	<b>\$180,790</b>	<b>\$271,123</b>	<b>\$44,139</b>
<b>Deferred (prepaid):</b>			
Federal	\$ (28,448)	\$ (11,807)	\$16,262
Foreign	(1,475)	(737)	320
<b>Total deferred (prepaid)</b>	<b>\$ (29,923)</b>	<b>\$ (12,544)</b>	<b>\$16,582</b>

The Company's practice is to reinvest indefinitely the earnings of certain international subsidiaries. Accordingly, no U.S. income taxes have been provided for approximately \$908,680,000 of unremitted earnings of international subsidiaries. At November 3, 2001, the Company had general business credit carryovers of approximately \$12.2 million that begin to expire in 2021.

## ANALOG DEVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The significant components of the Company's deferred tax assets and liabilities for the fiscal years ended November 3, 2001 and October 28, 2000 are as follows:

	2001	2000
<b>Deferred tax assets:</b>		
Inventory reserves	\$ 40,419	\$ 34,702
Deferred income on shipments to distributors	34,444	45,864
Reserves for compensation and benefits	45,030	25,046
Tax credit carryovers	12,228	—
Other	7,297	3,377
	<u>139,418</u>	<u>108,989</u>
<b>Deferred tax liabilities:</b>		
Depreciation	(41,849)	(48,945)
Undistributed earnings of foreign subsidiaries	(8,415)	(4,972)
Other	(1,081)	2,712
	<u>(51,345)</u>	<u>(51,205)</u>
Net deferred tax assets	<u>\$ 88,073</u>	<u>\$ 57,784</u>

**REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS**

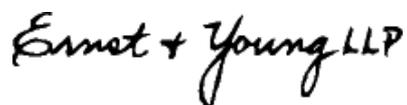
The Board of Directors and Stockholders

Analog Devices, Inc.

We have audited the accompanying consolidated balance sheets of Analog Devices, Inc. as of November 3, 2001 and October 28, 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended November 3, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Analog Devices, Inc. at November 3, 2001 and October 28, 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 3, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The image shows the handwritten signature of Ernst & Young LLP in black ink. The signature is written in a cursive, flowing style.

Boston, Massachusetts

November 19, 2001

**ANALOG DEVICES, INC.**
**SUPPLEMENTARY FINANCIAL INFORMATION**  
**(Unaudited)**

Quarterly financial information for fiscal 2001 and fiscal 2000 (thousands except per share amounts and as noted):

	4Q01	3Q01	2Q01	1Q01	4Q00	3Q00	2Q00	1Q00
Net sales	423,313	479,886	601,442	772,274	805,617	700,658	580,995	490,277
Cost of sales	203,432	226,008	258,635	320,020	333,730	300,519	257,184	225,087
Gross margin	219,881	253,878	342,807	452,254	471,887	400,139	323,811	265,190
% of sales	52%	53%	57%	59%	59%	57%	56%	54%
<b>Operating expenses:</b>								
Research and development	106,054	112,101	124,821	121,710	114,625	102,830	90,026	82,516
Selling, marketing, general and administrative	57,447	66,583	77,563	85,553	80,569	77,198	71,073	64,524
Purchased in-process research and development	—	—	—	9,500	—	—	—	—
Amortization of intangibles	14,487	14,006	13,996	10,306	8,798	599	676	496
Special charge	20,850	26,157	—	—	—	—	—	—
Total operating expenses	198,838	218,847	216,380	227,069	203,992	180,627	161,775	147,536
% of sales	47%	46%	36%	29%	25%	26%	28%	30%
Operating income	21,043	35,031	126,427	225,185	267,895	219,512	162,036	117,654
% of sales	5%	7%	21%	29%	33%	31%	28%	24%
<b>Nonoperating expenses (income):</b>								
Interest expense	13,644	15,716	16,245	16,869	2,978	360	822	1,681
Interest income	(25,424)	(30,158)	(35,817)	(41,248)	(22,160)	(15,769)	(13,595)	(11,906)
Other	116	(212)	(1,173)	(28,116)**	1,732	(44,020)*	449	814
Total nonoperating (income) expense	(11,664)	(14,654)	(20,745)	(52,495)	(17,450)	(59,429)	(12,324)	(9,411)
Income before income taxes	32,707	49,685	147,172	277,680	285,345	278,941	174,360	127,065
% of sales	8%	10%	24%	36%	35%	40%	30%	26%
Provision for income taxes	8,506	10,382	44,676	87,303	85,473	86,740	52,308	34,058
Net income	24,201	39,303	102,496	190,377	199,872	192,201	122,052	93,007
% of sales	6%	8%	17%	25%	25%	27%	21%	19%
Per share — basic	.07	.11	.29	.53	.56	.54	.35	.26
Per share — diluted	.06	.10	.27	.50	.52	.50	.32	.25
Shares used to compute earnings per share (in thousands)								
Basic	361,110	359,535	358,739	357,070	356,376	355,018	352,706	349,352
Diluted	381,775	381,903	380,777	383,392	384,307	383,544	382,321	374,458

\* Includes \$44 million of realized gain on sale of investment in Chartered Semiconductor Manufacturing Pte., Ltd.

\*\* Includes \$28 million of realized gain on sale of investment in WaferTech, LLC.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The response to this item is contained in part under the caption “EXECUTIVE OFFICERS OF THE COMPANY” in Part I hereof, and the remainder is contained in our Proxy Statement for the Annual Meeting of Stockholders to be held on March 12, 2002 (the “2002 Proxy Statement”) under the caption “Election of Directors,” and is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

The response to this item is contained in our 2002 Proxy Statement under the captions “Directors’ Compensation,” “Executive Compensation,” and “Severance and Other Agreements,” and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The response to this item is contained in our 2002 Proxy Statement under the caption “Security Ownership of Certain Beneficial Owners and Management,” and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The response to this item is contained in our 2002 Proxy Statement under the caption “Transactions with Related Parties,” and is incorporated herein by reference.

**PART IV****ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K****(a) 1. Financial Statements**

The following consolidated financial statements are included in Item 8:

- Consolidated Statements of Income for the years ended November 3, 2001, October 28, 2000 and October 30, 1999
- Consolidated Balance Sheets as of November 3, 2001 and October 28, 2000
- Consolidated Statements of Stockholders' Equity for the years ended November 3, 2001, October 28, 2000 and October 30, 1999
- Consolidated Statements of Cash Flows for the years ended November 3, 2001, October 28, 2000 and October 30, 1999

**(a) 2. Financial Statement Schedules**

The following consolidated financial statement schedule is included in Item 14(d):

Schedule II — Valuation and Qualifying Accounts

All other schedules have been omitted since the required information is not present, or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

**(a) 3. Listing of Exhibits**

Exhibit No.	Description
3.1	Restated Articles of Organization of Analog Devices, Inc., as amended, filed as an exhibit to the Company's quarterly report on Form 10-Q (File No. 1-7819) for the quarterly period ended January 30, 1999 as filed with the Commission on March 15, 1999 and incorporated herein by reference.
3.2	By-laws of Analog Devices, Inc., as amended, filed as an exhibit to the Company's annual report on Form 10-K (File No. 1-7819) for the fiscal year ended November 1, 1997, as filed with the Commission on January 28, 1998 and incorporated herein by reference.
*4.1	Analog Devices, Inc. Deferred Compensation Plan, filed as an exhibit to a Form S-8 (File No. 33-64849) as filed with the Commission on December 8, 1995, as amended by Amendment No. 1 and Amendment No. 2, filed as exhibits to Post-Effective Amendment No. 1 to Form S-8 (File No. 33-64849) as filed with the Commission on April 15, 1997, and Amendment No. 3, filed as an exhibit to Post-Effective Amendment No. 2 to Form S-8 (File No. 33-64849) as filed with the Commission on November 12, 1997 and incorporated herein by reference.
4.2	Rights Agreement, dated as of March 18, 1998 between Analog Devices Inc. and BankBoston, N.A., as Rights Agent, filed as an exhibit to Analog Devices Inc.'s Registration Statement on Form 8-K (File No. 001-07819) as filed with the Commission on March 19, 1998, as amended by Amendment No. 1 filed as an exhibit to the Company's Form 8-K/ A (File No. 001-07819) as filed with the Commission on November 11, 1999 and incorporated herein by reference.
4.3	Indenture dated October 2, 2000 between Analog Devices, Inc. and State Street Bank and Trust Company, as Trustee, related to the Company's 4.75% Convertible Subordinated Notes due 2005, filed as an exhibit to the Company's Form S-3 (File No. 333-48928) as filed with the Commission on October 30, 2000 and incorporated herein by reference.

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<b>Exhibit No.</b>	<b>Description</b>
4.4	Registration Rights Agreement dated October 2, 2000 by and between Analog Devices Inc., Goldman, Sachs & Co., SG Cowen Securities Corporation and Salomon Smith Barney Inc. relating to the Company's 4.75% Convertible Subordinated Notes due 2005, filed as an exhibit to the Company's Form S-3 (File No. 333-48928) as filed with the Commission on October 30, 2000, as amended by Amendment No. 1, filed as an exhibit to the Company's Form S-3/A (File No. 333-48928) as filed with the Commission on December 7, 2000 and incorporated herein by reference.
4.5	Registration Rights Agreement dated January 12, 2001 by and between Analog Devices, Inc. and the former shareholders of Integrated Microsystems Inc., filed as an exhibit to the Company's Form S-3 (File No. 333-53660) as filed with the Commission on January 12, 2001 and incorporated herein by reference.
4.6.	Registration Rights Agreement dated December 8, 2000 by and between Analog Devices, Inc. and the former shareholders of ChipLogic, Inc., filed as an exhibit to the Company's Form S-3 (File No. 333-51530) as filed with the Commission on December 8, 2000, as amended by Amendment No. 1, filed as an exhibit to the Company's Form S-3/A (File No. 333-51530) as filed with the Commission on December 28, 2000 and incorporated herein by reference.
* 10.1	Bonus Plan of Analog Devices, Inc., filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 28, 2000 (File No. 1-7819) as filed with the Commission on January 26, 2001 and incorporated herein by reference.
*10.2	1991 Restricted Stock Plan of Analog Devices, Inc., filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 1, 1997 (File No. 1-7819) as filed with the Commission on January 28, 1998 and incorporated herein by reference.
* 10.3	1998 Stock Option Plan of Analog Devices Inc., filed as an appendix to the Registrant's Definitive Proxy Statement on Schedule 14A (File No. 1-7819) as filed with the Commission on February 6, 1998 and incorporated herein by reference.
* 10.4	Restated 1988 Stock Option Plan of Analog Devices, Inc., filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended May 3, 1997 (File No. 1-7819) as filed with the Commission on June 17, 1997 and incorporated herein by reference.
* 10.5	1992 Director Option Plan of Analog Devices, Inc., filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 1, 1997 (File No. 1-7819) as filed with the Commission on January 28, 1998 and incorporated herein by reference.
*10.6	1994 Director Option Plan of Analog Devices, Inc., as amended, filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended February 1, 1997 (File No. 1-7819) as filed with the Commission on March 17, 1997, as amended by Amendment No. 2 filed as an exhibit to the Company's Form S-8 (File No. 333-47789) as filed with the Commission on March 11, 1998 and incorporated herein by reference.
10.7	Amended and restated lease agreement dated May 1, 1992 between Analog Devices, Inc. and the trustees of Everett Street Trust relating to the premises at 3 Technology Way, Norwood, Massachusetts, filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 1, 1997 (File No. 1-7819) as filed with the Commission on January 28, 1998 and incorporated herein by reference.
10.8	Guaranty dated as of May 1, 1994 between Analog Devices, Inc. and Metropolitan Life Insurance Company relating to the premises at 3 Technology Way, Norwood, Massachusetts, filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 30, 1999 (File No. 1-7819) as filed with the Commission on January 28, 2000 and incorporated herein by reference.

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<b>Exhibit No.</b>	<b>Description</b>
10.9	Letter Agreement dated as of May 18, 1994 between Analog Devices, Inc. and Metropolitan Life Insurance Company relating to the premises at 3 Technology Way, Norwood, Massachusetts, filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 30, 1999 (File No. 1-7819) as filed with the Commission on January 28, 2000 and incorporated herein by reference.
10.10	Reimbursement Agreement dated May 18, 1992 between Analog Devices, Inc. and the trustees of Everett Street Trust, filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 1, 1997 (File No. 1-7819) as filed with the Commission on January 28, 1998 and incorporated herein by reference.
†10.11	Lease agreement dated August 8, 1990 between Precision Monolithics, Inc. and Bourns, Inc. relating to the premises at 1525 Comstock Road, Santa Clara, California.
†10.12	Lease amendment dated May 1, 1996 to the Lease Agreement dated August 8, 1990 between Analog Devices, Inc. and Bourns, Inc., relating to premises located at 1525 Comstock Road, Santa Clara, California.
†10.13	Lease agreement dated August 8, 1990, as amended, between Precision Monolithics, Inc. and Bourns, Inc. relating to the premises at 1500 Space Park Drive, Santa Clara, California.
†10.14	Lease amendment dated May 1, 1996 to the Lease Agreement dated August 8, 1990 between Analog Devices, Inc. and Bourns, Inc., relating to premises located at 1500 Space Park Drive, Santa Clara, California.
*10.15	Form of Employee Retention Agreement, as amended, filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 1, 1997 (File No. 1-7819) as filed with the Commission on January 28, 1998 and incorporated herein by reference and incorporated herein by reference.
*10.16	Employee Change in Control Severance Policy of Analog Devices, Inc., as amended, filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 30, 1999 (File No. 1-7819) as filed with the Commission on January 28, 2000 and incorporated herein by reference.
*10.17	Senior Management Change in Control Severance Policy of Analog Devices, Inc., as amended, filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 30, 1999 (File No. 1-7819) as filed with the Commission on January 28, 2000 and incorporated herein by reference.
*10.18	Letter agreement between Analog Devices Inc. and Jerald G. Fishman dated June 21, 2000 relating to acceleration of stock options upon the occurrence of certain events, filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 28, 2000 (File No. 1-7819) as filed with the Commission on January 26, 2001 and incorporated herein by reference.
*†10.19	Description of Consulting Arrangement between Analog Devices, Inc. and John L. Doyle.
†10.20	Lease Agreement dated June 16, 1995 between Analog Devices, Inc. and Ferrari Brothers, relating to the premises at 610 Weddell Drive, Sunnyvale, California.
†10.21	Lease amendment dated March 1, 1996 to the Lease Agreement dated June 16, 1995 between Analog Devices, Inc. and Ferrari Brothers, relating to premises located at 610 Weddell Drive, Sunnyvale, California.
†10.22	Lease amendment dated March 21, 2000 to the Lease Agreement dated June 16, 1995 between Analog Devices, Inc. and Ferrari Brothers, relating to premises located at 610 Weddell Drive, Sunnyvale, California.
†10.23	Lease Agreement dated February 8, 1996 between Analog Devices, Inc. and Massachusetts Institute of Technology, relating to premises located at 21 Osborn Street, Cambridge, Massachusetts.

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<b>Exhibit No.</b>	<b>Description</b>
*10.24	Trust Agreement for Deferred Compensation Plan, filed as an exhibit to the Company's Post Effective Amendment No. 2 to Form S-3 (File No. 333-17651) as filed with the Commission on November 12, 1997 and incorporated herein by reference.
10.25	Lease agreement dated September 19, 1996 between Ren Min Company Limited and Analog Devices Taiwan, Limited relating to the premises at Five-Kung-Five Road, Taipei, Taiwan, filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 1, 1997 (File No. 1-7819) as filed with the Commission on January 28, 1998 and incorporated herein by reference.
10.26	BCO Technologies plc Unapproved Share Option Scheme, filed as an exhibit to the Company's Form S-8 (File No. 333-50092) as filed with the Commission on November 16, 2000 and incorporated herein by reference.
10.27	BCO Technologies plc Approved Share Option Scheme, filed as an exhibit to the Company's Form S-8 (File No. 333-50092) as filed with the Commission on November 16, 2000 and incorporated herein by reference.
10.28	ChipLogic, Inc. Amended and Restated 1998 Stock Plan, filed as an exhibit to the Company's Form S-8 (File No. 333-53314) as filed with the Commission on January 5, 2001 and incorporated herein by reference.
10.29	Staccato Systems, Inc. 1998 Stock Plan, filed as an exhibit to the Company's Form S-8 (File No. 333-53828) as filed with the Commission on January 17, 2001 and incorporated herein by reference.
10.30	Various individual stock restriction and similar agreements between the registrant and employees thereof relating to ChipLogic, Inc., filed as an exhibit to the Company's Form S-8 (File No. 333-57444) as filed with the Commission on March 22, 2001, as amended by Amendment No. 1 filed as an Exhibit to the Company's Form S-8 POS (File No. 333-57444) as filed with the Commission on March 23, 2001 and incorporated herein by reference.
10.31	Analog Devices, Inc. 2001 Broad-Based Stock Option Plan, filed as an exhibit to the Company's Form S-8 (File No. 333-75170) as filed with the Commission on December 14, 2001 and incorporated herein by reference.
†21	Subsidiaries of the Company.
†23	Consent of Ernst & Young LLP.

† Filed Herewith.

\* Management contracts and compensatory plan or arrangements required to be filed as an Exhibit pursuant to Item 14(c) of Form 10-K.

### **(b) Reports on Form 8-K**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ANALOG DEVICES, INC.

(Registrant)

By: /s/ JERALD G. FISHMAN

By: /s/ JOSEPH E. MCDONOUGH

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Jerald G. Fishman  
President,  
Chief Executive Officer  
and Director  
(Principal Executive Officer)

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Joseph E. McDonough  
Vice President — Finance and  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

Date: January 28, 2002

Date: January 28, 2002

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
<hr/> <p>/s/ RAY STATA</p> <hr/> <p>Ray Stata</p>	Chairman of the Board	January 28, 2002
<hr/> <p>/s/ JERALD G. FISHMAN</p> <hr/> <p>Jerald G. Fishman</p>	President, Chief Executive Officer and Director	January 28, 2002
<hr/> <p>/s/ JOHN L. DOYLE</p> <hr/> <p>John L. Doyle</p>	Director	January 28, 2002
<hr/> <p>/s/ CHARLES O. HOLLIDAY</p> <hr/> <p>Charles O. Holliday</p>	Director	January 28, 2002
<hr/> <p>/s/ JOEL MOSES</p> <hr/> <p>Joel Moses</p>	Director	January 28, 2002
<hr/> <p>/s/ F. GRANT SAVIERS</p> <hr/> <p>F. Grant Saviers</p>	Director	January 28, 2002
<hr/> <p>/s/ LESTER C. THUROW</p> <hr/> <p>Lester C. Thurow</p>	Director	January 28, 2002

**ANALOG DEVICES, INC.**

**ANNUAL REPORT ON FORM 10-K  
YEAR ENDED NOVEMBER 3, 2001  
ITEM 14(d)  
FINANCIAL STATEMENT SCHEDULE**

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## ANALOG DEVICES, INC.

## SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

Years Ended November 3, 2001, October 28, 2000 and October 30, 1999

*(Thousands)*

Description	Balance at Beginning of Period	Addition Charged to Income Statement	Deductions	Balance at End of Period
<b>Accounts Receivable Reserves and Allowances:</b>				
Year ended October 30, 1999	\$32,332	\$ 313	\$18,407	\$14,238
Year ended October 28, 2000	\$14,238	\$5,940	\$ 7,022	\$13,156
Year ended November 3, 2001	\$13,156	\$8,163	\$ 5,921	\$15,398

LEASE

THIS LEASE, dated August 8, 1990, is made between Bourns, Inc., a California corporation ("Landlord"), and Precision Monolithics, Inc., a California corporation ("Tenant").

In consideration of the mutual covenants and agreements set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Article 1. PREMISES

Landlord hereby leases to Tenant and Tenant hereby hires from Landlord, subject to all terms and conditions of this Lease, those certain premises commonly known as 1525 Comstock Road, Santa Clara, California consisting of approximately 2.2 acres and including an office building containing approximately 43,500 square feet of rentable area, all building improvements and fixtures attached thereto and all easements appurtenant thereto (the "Premises").

A legal description of the Premises is attached hereto as Schedule A.

Article 2. TERM

2.1 The Initial Term of this Lease, unless sooner terminated as provided herein, shall be five (5) years, commencing on August 8, 1990 (the "Commencement Date").

2.2 Provided there exists no uncured default by Tenant under this Lease, Tenant shall have the option to extend this Lease for three (3) successive terms of five (5) years each (the "Option Terms"). Tenant shall exercise its option for each Option Term, if at all, by written notice to be given to Landlord no later than nine months prior to expiration of the Initial Term or, if Tenant at the time of such extension occupies the Premises pursuant to the earlier exercise of an Option Term, the then-existing Option Term. All references in this lease to the Term of this Lease shall mean, where appropriate, the Initial Term as extended by the exercise of the Option Terms.

Article 3. RENT

3.1 Base Rent for the Initial Term shall be Four Hundred Forty Five Thousand Dollars (\$445,000.00) per annum. Base Rent shall be payable in twelve (12)

equal installments on the first day of each month in advance, except that the portion of Base Rent payable for the fraction of the month starting with the Commencement Date shall be paid on the Commencement Date, prorated on the basis of the actual number of days in said month. If the Initial or any Option Term hereof ends on a day other than the last day of a month, then the portion of the Base Rent for the month during which said expiration occurs shall be prorated on the basis of the actual number of days in said month.

3.2 Base Rent for each Option Term shall be the fair rental value of the Premises at the inception of such Option Term based on the terms and conditions of this Lease. The fair rental value for each Option Term shall be determined by the following process: At least six (6) months prior to the commencement of an Option Term, Tenant and Landlord shall each notify the other of the Base Rent it believes represents the fair rental value of the Premises. If at least four (4) months prior to the commencement of an Option Term, the parties have not agreed in writing on a Base Rent amount, Landlord and Tenant shall determine the fair rental value of the Premises by MAI appraisal conducted by Coldwell Banker, or mutually agreeable equivalent, based on the terms and conditions of this Lease without, however, taking into account any improvements or alterations to the Premises constructed at the expense, exclusive of insurance proceeds, of Tenant. The Base Rent for such Option Term shall be the amount previously proposed by either party that is closer in amount to the appraised rental value. In the event that neither Landlord's nor Tenant's estimate of the fair rental value is closer to the appraised rental value, the Base Rent shall be equal to the appraised rental value. Neither party shall disclose to the appraiser its estimate of the fair rental value. The fees and reimbursable expenses of such appraiser shall be paid by the party whose estimate prevails. If for any reason the Base Rent has not been ascertained by the commencement of the Option Term, Tenant shall pay on account of Base Rent an amount equal to the average of the two proposed Base Rents until such time as the actual Base Rent shall have been established.

3.3 Throughout the term of this Lease, Tenant shall pay, as additional rent, all other amounts of money and charges required to be paid by Tenant under this Lease, whether or not such amounts of money or charges are designated "additional rent." As used in this Lease, "rent" shall mean and include all Base Rent and additional rent payable by Tenant in accordance with this Lease.

3.4 Tenant shall pay all Base Rent under Section 3.1 or Section 3.2 hereof to Landlord, monthly, in advance, on or before the first day of each and every calendar month during the term of this Lease and shall pay all additional rent promptly when due to the person entitled to receive the same. All rent payable to Landlord shall be paid without deduction or offset, in lawful money of the United States of America at the address for Landlord set forth on the signature page hereof, or to such other

person or at such other place as Landlord may from time to time designate in writing.

#### Article 4. NET LEASE

It is the intention of Landlord and Tenant that the Base Rent payable by Tenant to Landlord during the entire Term of this Lease shall be absolutely net of all costs and expenses incurred in connection with the management, operation, maintenance and repair of the Premises and every part thereof in accordance with this Lease. Subject to Landlord's obligations under Article 11 hereof, Tenant shall manage, operate, maintain and repair the Premises and keep the Premises in compliance with all applicable laws and regulations in accordance with this Lease and shall pay all costs and expenses incurred in connection therewith before such costs or expenses become delinquent.

#### Article 5. TAXES

5.1 Tenant shall pay, prior to delinquency, as additional rent, all "Property Taxes" (as hereinafter defined) that accrue during or are allocable to the term of this Lease. Landlord shall promptly deliver to Tenant any statements or bills received by Landlord with respect to Property Taxes. Tenant shall receive the benefit of any discount for early payment of such Property Taxes, even if such taxes are not paid early, if Tenant is prevented from paying the taxes early due to Landlord's failure to deliver the bill to Tenant in a timely fashion. No later than ten (10) days after Landlord delivers to Tenant a request for evidence of payment of any such amount, Tenant shall deliver to Landlord a receipt or other evidence satisfactory to Landlord that such bill or statement has been paid.

5.2 "Property Taxes" shall mean all taxes, assessments, excises, levies, fees and charges (and any tax, assessment, excise, levy, fee or charge levied wholly or partly in lieu thereof or as a substitute therefor or as an addition thereto) of every kind and description, general or special, ordinary or extraordinary, foreseen or unforeseen, secured or unsecured, whether or not now customary or within the contemplation of Landlord or Tenant, that are levied, assessed, charged, confirmed or imposed by any public or government authority on or against, or otherwise with respect to, (i) the Premises or any part thereof or any personal property used in connection with the Premises; (ii) any rent payable under this Lease, including, without limitation, any gross income tax or excise tax, levied by any public or government authority with respect to the receipt of any rent with respect to the Premises, but only to the extent no exemption, exclusion or abatement is available to Landlord, at no cost or expense to Landlord, with respect to such tax, or (iii) the possession, leasing, operation, management, maintenance, alternation, repair, use or occupancy by Tenant of the Premises, together with all interest, fines and other charges assessed for the late payment of any thereof. Property Taxes shall not

include net income (measured by the income of Landlord from all sources or from sources other than solely rent under this Lease), franchise, documentary transfer, inheritance or capital stock taxes of Landlord, unless levied or assessed after the Commencement Date against Landlord in whole or in part expressly in lieu of or as a substitute for any Property Taxes.

5.3 Tenant shall have the right to contest any Property Taxes imposed against the Premises or any part thereof, provided (i) the same is done at Tenant's sole cost and expense, (ii) non-payment of such Property Tax will not subject the Premises or any part thereof to sale or other liability by reason of such non-payment, (iii) such contest shall not subject Landlord to the risk of any criminal or civil liability, (iv) Tenant shall provide a bond in form and substance as required by applicable law, and (v) Tenant pays the amount determined to be due promptly after the conclusion of such contest. Landlord agrees to execute and deliver to Tenant any and all documents reasonably required, and to cooperate with Tenant in every respect, in any such contest, but without any cost or expense to Landlord. Landlord agrees not to intervene, compromise or prejudice Tenant's tax abatement or contest case, provided that Tenant remains at all times in full compliance with this Article 5.

#### Article 6. SERVICES

Tenant shall, at Tenant's sole cost and expense, arrange and pay for all utilities required for the conduct of its business. Landlord shall not be in default hereunder or be liable for any damage or loss directly or indirectly resulting from, nor shall the rent be abated or a constructive or other eviction be deemed to have occurred by reason of, the installation, use or interruption of use of any equipment in connection with the furnishing of any of the foregoing services, any failure to furnish or delay in furnishing any such services, whether such failure or delay is caused by accident or any condition beyond the control of Landlord or Tenant or by the making of repairs or improvements to the Premises, or any limitation, curtailment, rationing or restriction on use of any utility, whether such results from mandatory governmental restriction or voluntary compliance with governmental guidelines, unless, with respect to each of the foregoing conditions, it is due solely to the act or omission of Landlord or its agents or employees.

#### Article 7. USE OF PREMISES

Tenant shall use and occupy the Premises for general office purposes and activities reasonably related or ancillary thereto, including research facilities, and shall not use or occupy the Premises for any other purpose without the prior written consent of the Landlord, which approval shall not be unreasonably withheld or delayed. Tenant's use shall at all times be in compliance with the provisions of Article 15 hereof. Tenant shall not commit, or suffer to be committed, any act which (a) is in violation of any insurance requirement which is a condition to the validity of

any insurance policy with respect to the Premises, (b) is in violation of the terms of any insurance policy, or (c) may cause a cancellation of any such insurance for the Premises.

#### Article 8. ACCEPTANCE OF PREMISES

The Premises shall be let in their present condition, i.e. "as is," and subject to any facts which would be revealed by a survey or physical inspection thereof, the state of title as it presently exists and all laws, ordinances and restrictions applicable thereto. Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the Premises or with respect to the suitability or fitness of the Premises or the conduct of Tenant's business or for any other purpose. Notwithstanding the foregoing sentence, Landlord does represent that the use of the Premises by Landlord's immediate predecessor in title was in material conformance with all laws, ordinances and regulations relating to zoning and land use applicable to the Premises. The taking of possession or use of the Premises by Tenant for any purpose shall conclusively establish that the Premises were at such time in satisfactory condition and in conformity with the provisions of this Lease in all respects. Nothing contained in this Article 8 shall affect the commencement of the Term of this Lease or the obligation of Tenant to pay rent hereunder as provided in Article 3 hereof.

#### Article 9. ALTERATIONS

9.1 Tenant shall not make any alterations, additions or improvements in or to the Premises or any part thereof, or attach any fixtures or equipment thereto, without Landlord's prior written consent. Landlord's approval shall not be unreasonably withheld or delayed but may be subject to such conditions as Landlord may reasonably require. Tenant shall not be required to restore any alterations, additions or improvements made by Tenant during the Term, unless such restoration is required by Landlord at the time of such alteration, addition or improvement. In addition, Tenant may make such alterations, additions or improvements without Landlord's consent, but with notice to Landlord, if the total per-project cost of such alterations, additions or improvements is \$50,000.00 or less, and such alterations, additions or improvements will not affect the structural elements of the Premises, detract from the fair rental or market value of the Premises. Tenant will comply with all applicable codes, laws, ordinances, rules or regulations in connection with any alterations, additions or improvements. All alterations, additions or improvements in or to the Premises shall be made by Tenant at Tenant's sole cost and expense, shall be made expeditiously once work is begun and shall be completed in a good and workmanlike manner using first class materials. No part of the Premises shall be demolished unless Landlord has received an acceptable surety bond assuring reconstruction. Tenant shall, at its expense, provide builder's risk insurance naming Landlord as an insured during the period of any construction work.

9.2 All alterations, additions or improvements requiring Landlord's consent shall be made as follows:

(a) Tenant shall submit to Landlord, for Landlord's written approval, complete plans and specifications for all work to be done by Tenant. Such plans and specifications shall be prepared by licensed architect(s) and engineer(s) approved by Landlord, such approval not to be unreasonably withheld or delayed, shall comply with all applicable codes, ordinances, rules and regulations, shall be in a form sufficient to secure the approval of all government authorities with jurisdiction over the Premises, and shall be otherwise satisfactory to Landlord in Landlord's reasonable discretion. Landlord's failure to respond to a request for plan approval within thirty (30) days shall be deemed approval of such plans.

(b) Tenant shall, through Tenant's licensed contractor, perform the work substantially in accordance with the plans and specifications approved in writing by Landlord. All material changes in the plans and specifications approved by Landlord shall be subject to Landlord's prior written approval. Any such change shall be based upon revised plans and specifications prepared by the licensed architect(s) and engineer(s) approved by Landlord, such approval not to be unreasonably withheld or delayed.

(c) Tenant shall pay the entire cost of all work (including the cost of all utilities, permits, fees, taxes, and property and liability insurance premiums in connection therewith) required to make the alterations, additions or improvements. Under no circumstances shall Landlord be liable to Tenant for any damage, loss, cost or expense incurred by Tenant on account of any plans and specifications, contractors or subcontractors, design of any work, construction of any work, or delay in completion of any work.

9.3 All improvements, alterations, additions and fixtures (other than trade fixtures), whether temporary or permanent in character, made in or to the Premises by Tenant, shall remain the property of Tenant until the expiration or earlier termination of this Lease, whereupon they shall become part of the Premises and Landlord's property. All movable furniture, equipment, trade fixtures, computers, office machines and other personal property of Tenant shall remain the property of Tenant. Upon the expiration or earlier termination of this Lease, Tenant shall, at Tenant's expense, remove all such movable furniture, equipment, trade fixtures, computers, office machines and other personal property from the Premises and repair all damage caused by such removal; provided, however, that Tenant shall not be obligated to make any repairs to wall or floor coverings or otherwise make repairs if Landlord intends to otherwise demolish or renovate the Premises so that for all practical purposes, the repairs would be in vain. This Section 9.3 shall survive the expiration or earlier termination of this Lease.

#### Article 10. LIENS

Tenant shall promptly discharge or bond off any liens and encumbrances whatsoever, including mechanics' liens, arising out of any work performed, materials furnished or obligations incurred by or on behalf of Tenant. Tenant shall indemnify and hold harmless Landlord from and against any such lien or claim or action thereon, and reimburse Landlord promptly upon demand therefor by Landlord for costs of suit and reasonable attorneys' fees incurred by Landlord in connection with any such claim or actions.

#### Article 11. MAINTENANCE AND REPAIR

11.1 Landlord shall, throughout the Term, at Landlord's sole cost and expense (a) make all structural repairs to the Premises including, without limitation, repairs to the roof, the exterior and load bearing walls, the structural columns and the foundation, and (b) to the extent required within six (6) months from the date of this Lease, make all capital replacements (not including overhauls or upgrades) to the plumbing, mechanical, electrical and HVAC systems and equipment (specifically excluding filters and scrubbers) existing in the Premises as of the date of this Lease, but only to the extent the cost of each such capital replacement exceeds \$10,000. Landlord shall not be responsible for the matters listed in (a) or (b) above to the extent any such structural repair or capital replacement is made necessary by any act or omission of Tenant, its agents or employees.

11.2 Except as provided in Section 11.1, Tenant shall, at Tenant's sole cost and expense, and at all times, keep and maintain the Premises and every part thereof, in good working order and condition and shall make all normal and ordinary repairs and replacements which may be necessary to keep the Premises in good working order and condition, subject to ordinary wear and tear. Tenant, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices. Tenant shall at all times maintain the current slope, grade and drainage of the land included in the Premises. Landlord and Tenant expressly waive the benefit of Section 1942 of the California Civil Code, as the same may be amended in the future, or any statutory provision enacted in lieu thereof.

#### Article 12. ENTRY BY LANDLORD

Landlord shall have the right to enter the Premises at any time during an emergency and at reasonable times upon prior notice to (i) inspect the Premises, (ii) exhibit the Premises to prospective purchasers or lenders or, within 6 months prior to the expiration of the Term, prospective tenants, (iii) determine whether Tenant is performing all of Tenant's obligations under any portion of this Lease, (iv) post notices-of nonresponsibility, (v) perform any inspection or action requested or ordered by any governmental authority and (vi) make any repairs to the Premises

which, following requisite notice hereunder, Tenant has failed to perform. Except to the extent caused by the gross negligence or willful misconduct of Landlord or Landlord's agents or employees, Tenant waives all claims for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises or any other loss occasioned by such entry; provided that Landlord shall have used reasonable efforts to avoid or minimize any disturbance or disruption to Tenant's business.

#### Article 13. LIMITATIONS ON LANDLORD'S LIABILITY; INDEMNITY; INSURANCE

13.1 Landlord shall not be liable to Tenant under this Lease, nor shall Tenant be entitled to terminate this Lease or to any abatement of rent, for any damage to or loss or theft of any property or for any bodily or personal injury, illness or death of any person in, on or about the Premises or for any loss to Tenant's business arising at any time and from any cause whatsoever (except to the extent caused by the gross negligence or willful misconduct of Landlord or its agents or employees). Tenant waives all claims against Landlord arising from any liability described in this Section 13.1 (except to the extent caused by the gross negligence or willful misconduct of Landlord or its agents or employees).

13.2 Tenant shall indemnify, hold harmless and defend Landlord, its officers, directors, stockholders, partners, employees, agents and representatives and any other party acting on behalf of Landlord against all claims, demands, causes of action, liabilities, damages, losses, costs and expenses, including reasonable attorneys' fees and disbursements, arising from or related to any use or occupancy of the Premises, or any condition of the Premises, or any default in the performance of Tenant's obligations, or any damage to any property (including property of employees and invitees of Tenant) or any bodily or personal injury, illness or death of any person (including employees and invitees of Tenant) occurring in, on or about the Premises, or any part thereof arising at any time and from any cause whatsoever (except to the extent caused by the negligence or misconduct of Landlord or its agents or employees) or occurring outside the Premises when such damage, bodily or personal injury, illness or death is caused by any act or omission of Tenant or its agents, officers, employees, contractors, invitees or licensees. This Section 13.2 shall survive the expiration or earlier termination of this Lease with respect to any damage, bodily or personal injury, illness or death occurring prior to such termination.

13.3 Tenant shall at all times, at its sole cost and expense, obtain, or cause Analog to obtain, pay for and maintain in full force and effect such insurance policy or policies as Landlord may from time to time reasonably request, including the following:

(a) "All-Risk" property (including boiler and machinery) insurance, on a replacement cost basis covering the Premises in an amount no less than the full replacement cost thereof, excluding insurance coverage for the peril of earthquake, including the costs of demolition and increased cost of construction and contingent liability arising out of the need to comply with any building code, law or regulation, to the extent the loss is due to direct physical loss to the Premises from an insured peril. Loss covered by such insurance shall be adjusted by Tenant subject to approval of Landlord, such approval not to be unreasonably withheld or delayed, and the proceeds of such insurance shall be payable solely to Landlord and Tenant or any Lender designated as mortgagee or loss payee. Landlord shall be designated as named insured in such policies and any Lender designated by Landlord shall be included as mortgagee or loss payee relative to all real property. All risk property policies may provide for reasonable deductibles (which at the inception of this Lease is \$100,000). To the extent Landlord maintains insurance coverage against the peril of earthquake with respect to the Premises, Tenant agrees to reimburse Landlord for the annual premium, up to a maximum of \$2,000.00 per year.

(b) Commercial general liability in respect to occurrences arising out of or relating to the operation, maintenance and use of the Premises, and umbrella liability insurance covering Tenant and Landlord as named insureds against claims arising out of liability for bodily injury and death and personal injury and advertising injury and property damage occurring in and about the Premises and otherwise resulting from any acts and operations of Tenant and Landlord with limits not less than the existing or future limits of such insurance generally purchased by Tenant with respect to any other premises or operations of Tenant but in no event less than a total combined single limit at \$10,000,000 per occurrence and \$50,000,000 annual general aggregate. Such insurance may provide for a reasonable deductible (which at the inception of this Lease is \$100,000). If commercially and reasonably available to Tenant, such policies shall be in occurrence form and cross liability and severability of interests shall apply (with the exception of limits of liability).

(c) Workers' compensation and employer's liability insurance in the state in which the Premises are located. The total limits of the employer's liability coverage shall not be less than the amounts required by applicable law.

(d) Such other appropriate endorsements or extensions of coverage as would be deemed reasonable for a prudent landlord to require with respect to other similar properties, provided they are available at a commercially reasonable cost.

(e) In the event that any deductible or otherwise self-insured retention amounts are applicable with respect to any loss or claim under any of the insurance described in this Article 13 or otherwise, all such amounts shall be entirely paid by Tenant.

13.4 All insurance required under this Article 13 and all renewals thereof shall be issued by good and responsible companies rated not less than "A; 25 million policy holder surplus" by Best's Insurance Guide and qualified to do and doing business in California. Each policy shall expressly provide that the policy shall not be cancelled or altered without thirty (30) days' prior written notice to Landlord and any designated Lender; provided that Tenant shall use its reasonable efforts to have each policy expressly provide that it shall not be cancelled or altered without sixty (60) days' prior written notice to Landlord and any designated Lender. All insurance under Articles 13.3(a) and 13.3(b) shall be primary and noncontributing with any insurance which may be carried by Landlord. The term "Lender" means any institutional holder of a first or second mortgage lien encumbering the Premises or any part thereof.

13.5 The insurance required by this Lease, at the option of Tenant, may be effected by blanket policies, umbrella policies or both issued to Tenant covering the Premises and other properties owned or leased by Tenant, provided that the policies otherwise comply with the provisions of this Lease and allocate to the Premises the specified coverage. Tenant shall furnish to Landlord or any Lender of Landlord certificates of insurers, evidencing the existence of such policies and Tenant shall also provide copies certified by Tenant of such policies in which Landlord has an insurable interest as soon as such policies are received from insurance companies upon Landlord's request with schedules thereto attached showing the amount of insurance afforded by such policies applicable to the Premises. If Tenant fails to insure or fails to furnish to Landlord upon notice to, do so any such certificate thereof as required, Landlord shall have the right to effect such insurance for the benefit of Tenant or Landlord or any Lender or any or all of them, and all premiums paid by Landlord shall be payable by Tenant as additional rent on demand.

13.6 Landlord covenants that any person entering the Premises to perform physical work or activity on the Premises on behalf of Landlord shall be covered by comprehensive general liability insurance with a combined single limit of not less than \$1,000,000, and by workmen's compensation insurance, if and to the extent required by law. Landlord shall use reasonable efforts to assure that all other persons entering on the Premises on behalf of Landlord are similarly insured.

#### Article 14. HAZARDOUS SUBSTANCES

14.1 Tenant shall not engage in any activity in, on or about the Premises involving the generation, transportation, use, storage, spill, release or disposal of Hazardous Substances without the express prior written consent of Landlord and compliance in a timely manner (at Tenant's sole cost and expense) with all Applicable Law (as defined in Article 15). "Hazardous Substances" as used in this Lease shall mean any substance or material, or mixture or waste containing such substance or material, regardless of quantity or concentration, which is or may be (i) subject to

regulation under state, federal or local law, (ii) a basis for liability of Landlord to any governmental agency or third party under any applicable statute, regulation or common-law theory. Notwithstanding the foregoing, Tenant may, without Landlord's prior consent, but in compliance with all Applicable Law, generate, transport, use, store or dispose of Hazardous Substances on the Premises as is necessary to conduct Tenant's business as permitted by Article 7 on the Premises.

14.2 {Intentionally omitted.}

14.3 Tenant shall notify Landlord of any release of a Hazardous Substance at the Premises, if and when Tenant determines that such release is required to be reported to any local, state or federal governmental authority.

14.4 Tenant shall indemnify, protect, defend and hold Landlord, its agents, employees, lenders and ground lessor, if any, and the Premises, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, costs, claims, liens, expenses, penalties, permits and attorney's and consultant's fees arising out of or involving any Hazardous Substance or storage tank brought onto the Premises by or for Tenant or under Tenant's control. Tenant's obligations under this Article 14 shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Tenant, and the cost of investigation (including consultant's and attorney's fees and testing), removal, remediation, restoration, and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Landlord and Tenant shall release Tenant from its obligations under this Lease with respect to Hazardous Substances or storage tanks, unless specifically so agreed by Landlord in writing at the time of such agreement. Notwithstanding the foregoing, specifically excluded from Tenant's indemnification obligation under this Section 14.4 are the obligations of Bourns, Inc. arising under Section 31.8 of this Lease.

14.5 If a release of a Hazardous Substance occurs for which Tenant is responsible ("Hazardous Substance Condition"), Tenant shall make the investigation and remediation thereof required by Applicable Law, and this Lease shall continue in full force and effect, but subject to Landlord's rights under Articles 21 and 22 hereof. If after sixty (60) days written notice to Tenant from Landlord of Tenant's obligations under this Section Tenant has failed to begin investigation and remediation of such Hazardous Substance Condition, Landlord may, upon thirty (30) days written notice to Tenant, terminate this Lease unless Tenant, in such thirty (30) days notice period, begins investigation and remediation of such Hazardous Substance Condition and agrees in writing to pay for the investigation and remediation of such Hazardous Substance Condition at Tenant's sole expense and without reimbursement from Landlord.

#### Article 15. TENANT'S COMPLIANCE WITH LAW

15.1 Except as otherwise provided in this Lease, Tenant shall, at Tenant's sole cost and expense, fully, diligently and in a timely manner, comply in all respects with all "Applicable Law," which term is used in this Lease to include all laws, rules, regulations, ordinances, and directives or any state, federal or local governmental authority relating in any manner to the Premises. Tenant shall, within five (5) days after receipt of Landlord's written request, provided Landlord with copies of all documents and information, including, but not limited to, permits, registrations, manifests, applications, reports and certificates, evidencing Tenant's compliance with any Applicable Law specified by Landlord, and shall immediately upon receipt, notify Landlord in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Tenant or the Premises to comply with any Applicable Law.

15.2 Notwithstanding Section 15.1, Tenant shall have the right to contest the validity or applicability to Tenant or to the Premises of any Applicable Law, provided (i) the same is done at Tenant's sole cost and expense, (ii) non-compliance with such Applicable Law will not subject the Premises or any part thereof to sale or other liability by reason of such non-compliance, (iii) such contest shall not subject Landlord to the risk of any criminal or civil liability, (iv) Tenant shall provide security in form and amount reasonably requested by Landlord, taking into account the factors listed in subclauses (i), (ii) and (iii) above, and (v) Tenant complies with such Applicable Law promptly after the conclusion of such contest, if determined adversely to Tenant.

#### Article 16. WAIVER OF SUBROGATION

Any insurance carried by either party with respect to the Premises or property therein or occurrences thereon shall, if it can be so written without additional premium or with an additional premium which the other party agrees to pay, include a clause or endorsement denying to the insurer rights of subrogation against the other party to the extent rights have been waived by the insured prior to occurrence of injury or loss. Each party, notwithstanding any provisions of this Lease to the contrary, hereby waives any rights of recovery against the other for injury or loss due to hazards covered by such insurance to the extent of the indemnification received thereunder.

#### Article 17. ASSIGNMENT AND SUBLETTING

17.1 Except to an entity controlling, controlled by or under common control with Tenant (an "Affiliate"), or to a successor to Tenant by way of merger, consolidation or the sale of all or substantially all of Tenant's assets, Tenant shall not either voluntarily or by operation of law assign, encumber, pledge or otherwise

transfer or hypothecate all or any part of Tenant's leasehold estate hereunder, or permit the Premises to be occupied by anyone other than Tenant or an Affiliate, or Tenant's or such Affiliate's employees, or sublet the Premises or any portion thereof, without Landlord's prior written consent, which shall not be unreasonably withheld or delayed; provided, however, that no one but Tenant, an Affiliate, or a successor to Tenant by way of merger, consolidation or the sale of all or substantially all of Tenant's assets, may exercise any Option to extend the Term of this Lease, so that the occupancy of any sublessee shall be limited to the balance remaining in the term during which such sublessee's occupancy begins. No collection or acceptance of rent by Landlord from any person shall be deemed a waiver of any provision of this Article 17, the acceptance of any assignee or subtenant as the tenant hereunder or a release of Tenant from any obligation under this Lease, whether theretofore or thereafter accruing.

17.2 If Tenant desires at any time to assign this Lease or to sublet the Premises or any portion thereof, it shall first notify Landlord of its desire to do so and shall submit in writing to Landlord (a) the name of the proposed subtenant or assignee; (b) the nature of the proposed subtenant's or assignee's business to be carried on in the Premises; (c) the terms and provisions of the proposed sublease or assignment, and (d) such financial information as Landlord may reasonably request concerning the proposed subtenant or assignee.

17.3 At any time within fifteen (15) days after Landlord's receipt of the information specified in Section 17.2 hereof, Landlord may by written notice to Tenant elect to (a) consent to the proposed subletting or assignment, in which event Tenant may within ninety (90) days thereafter, enter into a valid assignment or sublease of the Premises or portion thereof with such proposed assignee or sublessee, upon the terms and conditions set forth in the information furnished by Tenant to Landlord pursuant to Section 17.2 hereof, or (b) refuse to give its consent, specifying in reasonable detail the reason(s) therefor.

17.4 No consent by Landlord to any assignment or subletting by Tenant shall relieve Tenant of any obligation to be performed by Tenant under this Lease, whether accruing before or after such consent, assignment or subletting. The consent by Landlord to any assignment or subletting shall not relieve Tenant or any successor, assignee or subtenant of Tenant, from the obligation to obtain Landlord's express written consent to any other assignment or subletting. Any assignment or subletting which is not in compliance with this Article 17 shall be void and, at the option of Landlord, constitute a default by Tenant hereunder.

17.5 Each assignee, other than Landlord, shall assume all obligations of Tenant under this Lease and shall be and remain liable jointly and severally with Tenant for the payment of the rent, and for the due performance of all the terms, covenants, conditions and agreements herein contained on Tenant's part to be

performed for the term of this Lease; provided, however, that the assignee shall be liable to Landlord for rent only in the amount set forth in the assignment or transfer. No assignment shall be binding on Landlord unless such assignee or Tenant shall deliver to Landlord a counterpart of such assignment and an instrument in recordable form which contains a covenant of assumption by the assignee satisfactory in substance and form to Landlord, consistent with the requirements of this Section 17.5, but the failure or refusal of the assignee to execute such instrument of assumption shall not release or discharge the assignee from its liability as set forth above.

17.6 The voluntary or other surrender of this Lease by Tenant or a mutual cancellation hereof shall not work a merger, and shall at the option of Landlord, terminate all or any existing subleases or subtenancies or operate as an assignment to Landlord of such subleases or subtenancies.

17.7 Tenant shall reimburse Landlord for Landlord's reasonable costs, including, without limitation, its attorneys' fees, incurred in conjunction with the processing and documentation of any assignment, subletting, transfer, change of ownership or hypothecation of this Lease or Tenant's interest in and to the Premises, or Tenant's request for Landlord's consent to any thereof.

#### Article 18. TRANSFER OF LANDLORD'S INTEREST

In the event of any transfer or transfers of Landlord's interest in the Premises, other than a transfer for security purposes only, the transferor shall be automatically relieved of any and all obligations and liabilities on the part of Landlord accruing solely under this Lease from and after the date of such transfer.

#### Article 19. DAMAGE OR DESTRUCTION

19.1 If the whole of the Premises or so much thereof as to render the balance unusable by Tenant shall be destroyed by casualty during the term of this Lease, either party may terminate this lease upon fifteen (15) days' written notice to the other party; provided, however, that all proceeds from insurance and any deductible or self-insured retention amounts are paid over to Landlord, or the Lender, if so required. If either party shall give such notice, then this Lease shall terminate as of the date of such notice with the same force and effect as if such date were the date originally established as the expiration date hereof.

19.2 If the Lease is not terminated pursuant to Section 19.1, and if the proceeds of insurance are made available to Tenant, Tenant shall proceed to restore the Premises to substantially the condition existing prior to such casualty, and this Lease shall continue in full force and effect. Tenant shall not be entitled to any reduction in or abatement of rent by reason of any such damage.

19.3 No damage, compensation or claim shall be payable by Landlord for inconvenience, loss of business or annoyance arising from any repair or restoration of any portion of the Premises.

19.4 With respect to any damage which Landlord is obligated to repair or elects to repair, Tenant, as a material inducement to Landlord entering into this Lease, irrevocably waives and releases its rights under the provisions of Sections 1932(2) and 1933(4) of the California Civil Code.

#### Article 20. EMINENT DOMAIN

20.1 If the whole of the Premises or so much thereof as to render the balance unusable by Tenant shall be taken under power of eminent domain, this Lease shall automatically terminate as of the date of such condemnation, or as of the date possession is taken by the condemning authority, whichever is earlier. No award for any such partial or entire taking shall be apportioned, and Tenant hereby assigns to Landlord any award which may be made in such taking or condemnation, together with any and all rights of Tenant now or hereafter arising in or to the same or any part thereof; provided, however, that nothing contained herein shall be deemed to give Landlord any interest in or to require Tenant to assign to Landlord any award made to Tenant for its relocation expenses, the taking of personal property and fixtures belonging to Tenant, the interruption of or damage to Tenant's business and/or for Tenant's unamortized cost of leasehold improvements.

20.2 In the event of a partial taking which does not result in a termination of this Lease, rent shall be abated in proportion to that part of the Premises made unusable by such partial taking.

20.3 No temporary taking (which shall mean a taking for a period of six (6) months or less), of the Premises and/or of Tenant's rights therein or under this Lease shall terminate this Lease or give Tenant any right to any abatement of rent hereunder. Any award made to Tenant by reason of any such temporary taking shall belong entirely to Tenant and Landlord shall not be entitled to share therein.

#### Article 21. DEFAULTS

The occurrence of any one or more of the following shall constitute a default by Tenant:

(i) The failure by Tenant to pay the Base Rent when due where such failure continues for more than five (5) days after written notice to Tenant; provided, that such notice shall be in lieu of and not in addition to any notice required under Section 1161 of the California Code of Civil Procedure;

(ii) The abandonment, as a matter of law, of the Premises by Tenant;

(iii) The failure by Tenant to observe or perform any other provision of this Lease to be observed or performed by Tenant, where such failure continues for thirty (30) days after written notice thereof by Landlord to Tenant; provided, however, that if the nature of such default is such that the same cannot reasonably be cured within such thirty (30) day period, Tenant shall not be deemed to be in default if Tenant shall within such period commence such cure and thereafter diligently prosecute the same to completion; and provided further, that such notice shall be in lieu of and not in addition to any notice required under Section 1161 of the California Code of Civil Procedure;

(iv) If Tenant becomes insolvent as defined in the Federal Bankruptcy Code, admits in writing its insolvency or its present or prospective inability to pay its debts as they become due, is unable to or does not pay all or any material portion (in number or dollar amount) of its debts as they become due, permits or suffers a judgment to exist against it which affects Tenant's ability to conduct its business in the ordinary course (unless enforcement thereof is stayed pending appeal), makes an assignment for the benefit of creditors, or any class thereof, for purposes of effecting a moratorium upon or extension or composition of its debts, or commences any bankruptcy, reorganization or insolvency proceeding, or other proceeding under any federal, state or other law for the relief of debtors;

(v) If Tenant fails to obtain the dismissal, within sixty (60) days after the commencement thereof, of any bankruptcy, reorganization or insolvency proceeding, or other proceeding under any federal, state or other law for the relief of debtors, instituted against it by one or more third parties, or fails actively to oppose any such proceeding, or, in any such proceeding, defaults or files an answer admitting the material allegations upon which the proceeding was based or alleges its willingness to have an order for relief entered or its desire to seek liquidation, reorganization or adjustment of any of its debts; or

(vi) If any receiver, trustee or custodian is appointed to take possession of all or any substantial portion of the assets of Tenant, or any committee of Tenant's creditors, or any class thereof, is formed for the purpose of monitoring or investigating the financial affairs of Tenant or enforcing such creditors' rights.

#### Article 22. REMEDIES

In the event of any such default, then, in addition to any other remedies available to Landlord at law or in equity:

22.1 Landlord shall have the right to terminate this Lease and all rights of Tenant hereunder by giving Tenant written notice of such election to terminate, in which event Landlord may recover from Tenant:

(i) the worth at the time of award of any unpaid rent which has been earned at the time of such termination; plus

(ii) the worth at the time of award of any amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental losses which Tenant proves could have been reasonably avoided; plus

(iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of the award exceeds the amount of such rental loss which Tenant proves could be reasonably avoided; plus

(iv) any other amount, including attorney's fees and administrative expenses, necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; and

(v) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

For purposes of this Section 22.1, rent, other than the Base Rent, shall be computed on the basis of the average monthly amount thereof accruing during the 24-month period immediately prior to default, except that if it becomes necessary to compute such rental before such 24-month period has occurred, then on the basis of the average monthly amount during such shorter period. As used in subparagraphs (i) and (ii) above, the "worth at the time of award" shall be computed by allowing interest at the rate specified in Section 22.5 hereof. For purposes of subsection (iii) above, the "worth at the time of award" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

22.2 Landlord shall have the right, with or without terminating this Lease, to re-enter the Premises, remove all persons and property from the Premises pursuant to legal proceedings or any notice provided by law, and without terminating this Lease, either recover all rent as it becomes due or relet the Premises or any part thereof. Landlord shall use reasonable efforts to relet the Premises. The rentals actually received by Landlord from such reletting shall be applied first, to the payment of any indebtedness other than rent due hereunder from Tenant to Landlord; second, to the costs of such reletting; third, to the costs of any alterations and repairs to the Premises; fourth, to the payment of rent due and unpaid

hereunder, together with interest thereon and late charges attributable thereto; and the balance, if any, shall be held by Landlord and applied in payment of future rent as the same may become due and payable hereunder. Should any reletting result in the actual payment of rentals at less than the rent payable during that month by Tenant hereunder, Tenant shall pay such deficiency to Landlord immediately upon demand therefor by Landlord.

22.3 No re-entry or taking possession of the Premises by Landlord pursuant to this Article 22 shall be construed as an election to terminate this Lease unless a written notice of such intention be given to Tenant or unless the termination thereof be decreed by a court of competent jurisdiction. Notwithstanding any reletting without termination by Landlord, Landlord may at any time after such reletting elect to terminate this Lease.

22.4 Notwithstanding anything to the contrary contained elsewhere herein, if Tenant shall fail to make payment of any obligation under this Lease within five (5) days after the same becomes due and payable, Tenant acknowledges that Landlord will incur extra administrative expenses (i.e., in addition to expenses incident to receipt of timely payment) in connection with the delinquency in payment. Because, the actual damages suffered by Landlord in incurring such extra administrative expenses would be impracticable or extremely difficult to ascertain, it is agreed that three percent (3%) of the amount of the delinquent payment shall be the amount of damages to which Landlord is entitled, upon such default, in compensation for such extra administrative expenses. Therefore, Tenant shall, in such event, without further notice, pay to Landlord as Landlord's sole monetary recovery to cover such extra administrative expenses, liquidated damages in the amount of three percent (3%) of the amount of such delinquent payments. In addition to the foregoing, Tenant acknowledges that Landlord may incur actual damages, in the event of delinquency in payment, in the amount of the actual cost of funds borrowed by Landlord to replace the amount of the delinquent payment hereunder. Tenant agrees to pay such actual damages, to the extent actually incurred by Landlord, to Landlord upon demand. Nothing contained in this Section 22.4 shall be construed as an express or implied agreement by Landlord to forbear the collection of any delinquent payment or be construed as in any way giving Tenant the right, express or implied, to fail to make timely payment hereunder. The right of Landlord to receive payment of such liquidated and actual damages, and receipt thereof, are without prejudice to the right of Landlord to collect such delinquent payments and any other amounts provided to be paid hereunder, or to declare a default hereunder.

22.5 Any amount due from Tenant to Landlord which is not paid when due shall bear interest at the lesser of twelve (12%) percent per annum or the maximum rate or rates from time to time permitted by applicable federal or state law from the date such payment is due until paid, but the payment of such interest shall not excuse or cure the failure to make such payment when due.

22.6 If Tenant or Landlord shall bring any action for any relief against the other, declaratory or otherwise, arising out of or under this Lease, including any suit by Landlord for the recovery of rent or possession of the Premises, the losing party shall pay the successful party a reasonable sum for attorneys' fees in such suit. Such attorneys' fees shall be deemed to have accrued as of the commencement of such action and shall be paid whether or not such action is prosecuted to judgment.

#### Article 23. SURRENDER OF PREMISES; REMOVAL OF PROPERTY

23.1 The voluntary or other surrender of this Lease by Tenant, or a mutual termination thereof, shall not work a merger, and shall at the option of Landlord, operate as an assignment to it of any or all subleases or subtenancies affecting the Premises.

23.2 Upon the expiration of the term of this Lease, or upon any earlier termination of this Lease, Tenant shall quit and surrender possession of the Premises to Landlord in as good order and condition as the same are now or hereafter may be improved by Landlord or Tenant, ordinary wear and tear and repairs which are Landlord's obligation excepted, and shall, without expense to Landlord, remove or cause to be removed from the Premises all debris and rubbish, all furniture, equipment, business and trade fixtures, free-standing cabinet work, movable partitions and other articles of personal property owned by Tenant and all similar articles of any other persons claiming under Tenant unless Landlord exercises its option to have any subleases or subtenancies assigned to it, and Tenant shall repair all damage to the Premises resulting from such removal.

23.3 Whenever Landlord shall re-enter the Premises pursuant to Article 22 hereof or as otherwise provided in this Lease, any property of Tenant not removed by Tenant upon the expiration of the term of this Lease (or within forty-eight (48) hours after a termination by reason of Tenant's default) shall be considered abandoned and Landlord may remove any or all of such items and dispose of the same in any manner or store the same in a public warehouse or elsewhere for the account and at the expense and risk of Tenant, and if Tenant shall fail to pay the cost of storing any such property after it has been stored for a period of thirty (30) days or more, Landlord may sell any or all of such property at public or private sale, in such manner and at such times and places as Landlord, in its sole discretion, may deem proper, without notice to or demand upon Tenant for the payment of all or any part of such charges or the removal of any such property. Landlord shall apply the proceeds of such sale first, to the cost and expense of such sale, including, without limitation, attorneys' fees incurred in connection therewith second, to the payment of the cost of or charges for storing any such property; third, to the payment of any other sums of money which may then or thereafter be due to Landlord from Tenant under any of the terms hereof; and fourth, the balance, if any, to Tenant.

23.4 All fixtures, alterations, additions, improvements and/or appurtenances attached or built into the Premises prior to or during the Term hereof, whether by Landlord at its expense or at the expense of Tenant or both, shall be and remain part of the Premises and shall not be removed by Tenant at the end of the Term hereof unless otherwise expressly provided for in this Lease. Any items installed by Tenant without Landlord's consent, as permitted under Section 9.1, shall be removed by Tenant at the end of the Term, if so required by Landlord unless Landlord has given a contrary indication in writing to Tenant at the time of the installation of such items. Such fixtures, equipment, alterations, additions, improvements and/or appurtenances shall include, without limitation, floor coverings, drapes, paneling, molding, doors, plumbing systems, electrical systems, lighting systems, silencing equipment, communication systems, all fixtures and outlets for the systems mentioned above and for all telephone, radio, telegraph and television purposes, and any special flooring or ceiling installations.

#### Article 24. WAIVER OF DAMAGES FOR RE-ENTRY

Tenant hereby waives all claims for damages that may be caused by Landlord's re-entering and taking possession of the Premises or removing and storing the property of Tenant as herein provided, and Tenant shall indemnify and hold harmless Landlord therefrom. No such re-entry shall be considered or construed to be a forcible entry.

#### Article 25. HOLDING OVER

25.1 If Tenant holds over after the term hereof, with or without the express or implied consent of Landlord, such tenancy shall be from month to month only, and not a renewal hereof or an extension for any further term, and in such case base rent shall be payable at the rate of one hundred fifty percent (150%) of the rent then payable pursuant to Article 3 hereof, and such month to month tenancy shall be subject to every other term, covenant and agreement contained herein. Nothing contained in this Article 25 shall be construed as a consent by Landlord to any holding over by Tenant and Landlord expressly reserves the right to require Tenant to surrender possession of the Premises to Landlord as provided in Article 23 hereof upon the expiration of the term of this Lease or other termination of this Lease.

25.2 Tenant acknowledges that Landlord will use reasonable efforts to re-let the Premises on reasonable terms and conditions as soon as practicable following the expiration or sooner termination of the term of this Lease. In that context, Landlord may well enter into agreements with third parties providing for the occupancy of the Premises, or a portion thereof, upon such expiration or sooner termination or as soon thereafter as Landlord has estimated that it will be able to refurbish the Premises, and that the failure by Tenant to surrender possession of the Premises upon such expiration or sooner termination may render Landlord unable to fulfill its obligations

to such third party. Accordingly, if Tenant fails to surrender possession of the Premises upon such expiration or sooner termination, Tenant shall indemnify and hold Landlord harmless from and against any and all costs, losses, claims or liabilities, including, without limitation, attorneys' fees, arising under any claim made by any such third party based, in whole or in part, on Landlord's failure to deliver possession of the Premises, or any part thereof, to such third party.

#### Article 26. SUBORDINATION

26.1 This Lease is and at all times shall be subject and subordinate to any ground or underlying leases, mortgages, trust deeds or like encumbrances, which may now or hereafter affect the real property of which the Premises are a part, and to all renewals, modifications, consolidations, replacements and extensions of any such lease, mortgage, trust deed or like encumbrance. This clause shall be self-operative and no further instrument of subordination shall be required by any ground or underlying lessor or by any mortgagee or beneficiary, affecting any lease or the real property of which the Premises are a part. In confirmation of such subordination, Tenant shall execute promptly any certificate that Landlord may request. The subordination of this Lease to any such lease, mortgage, trust deed or like encumbrance shall, however, be subject to the following:

(i) In the event of the sale of the Premises upon foreclosure or upon the exercise a power of sale, or by transfer in lieu of foreclosure or such exercise, Tenant will upon written request attorn to the purchaser and recognize the purchaser, or transferee, as the Landlord under this Lease.

(ii) Notwithstanding such subordination, Tenant's right to quiet possession of the Premises and all other Tenant's rights under this Lease, shall not be disturbed so long as Tenant shall pay the rent and observe and perform all of the provisions of this Lease to be observed and performed by Tenant unless this Lease is terminated pursuant to specific provisions relating thereto contained herein.

26.2 Notwithstanding anything to the contrary herein, Landlord agrees, at the request of Tenant, to use its reasonable efforts to obtain from Security Pacific National Bank a recognition and non-disturbance agreement in form and substance reasonably satisfactory to Tenant, and Landlord shall cooperate with Tenant as may be necessary to secure such agreement.

#### Article 27. ESTOPPEL CERTIFICATES

Tenant shall at any time and from time to time upon not less than twenty (20) days' prior notice by Landlord, execute, acknowledge and deliver to Landlord a statement in writing certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as

modified and stating the modifications), stating the dates to which the basic rent, additional rent and other charges have been paid in advance, if any, stating whether or not to the best knowledge of Tenant, Landlord is in default in the performance of any covenant, agreement or condition contained in this Lease and, if so, specifying each such default of which Tenant may have knowledge, and responding to such other questions or statements of fact as Landlord or any ground or underlying lessor or any mortgagee or beneficiary shall reasonably request. Tenant's failure to deliver such statement within such time shall constitute an acknowledgment by Tenant that this Lease is unmodified and in full force and effect except as may be represented to the contrary by Landlord, no more than one monthly installment of Base Rent has been paid in advance, Landlord is not in default in the performance of any covenant, agreement or condition contained in this Lease and the other matters set forth in such request, if any, are true and correct. Any such statement delivered pursuant to this Article 27 may be relied upon by any prospective purchaser of the fee of the Premises or any mortgagee or other like encumbrancer thereof or any assignee of any such encumbrancer upon the Premises. Landlord shall reimburse Tenant for Tenant's reasonable costs, including, without limitation, its attorneys' fees, incurred in conjunction with the processing and documentation of any estoppel certificate.

#### Article 28. RIGHT OF LANDLORD TO PERFORM

If Tenant shall fail to pay any sum of money, other than rent, required to be paid by it hereunder or shall fail to perform any other act on its part to be performed hereunder, and such failure shall continue beyond any applicable grace period set forth in Article 21 or 22 hereof, Landlord may, but shall not be obligated so to do, and without waiving or releasing Tenant from any obligation of Tenant, make any such payment or perform any such other act. Tenant shall, promptly and upon demand therefor by Landlord, reimburse Landlord for all sums so paid by Landlord and all necessary incidental costs, together with interest thereon at the rate of twelve (12%) percent from the date of such payment by Landlord, and Landlord shall have the same rights and remedies in the event of the failure by Tenant to pay such amounts as Landlord would have in the event of a default by Tenant in the payment of rent.

#### Article 29. NOTICES

All notices and consents which Landlord or Tenant may be required, or may desire, to serve or confer on the other must be in writing and may be served, as an alternative to personal service, by mailing the same by either (a) registered or

certified mail, postage prepaid, return receipt requested, or (b) Federal Express or similar overnight courier delivery service, addressed as follows:

If to Landlord:                   Bourns, Inc.  
                                  1200 Columbia Avenue  
                                  Riverside, California 92507  
                                  Attn: Larry L. White,  
  Executive Vice President

With a copy to:                   Bourns, Inc.  
                                  1200 Columbia Avenue  
                                  Riverside, California 92507  
                                  Attn: William Becker, Esq.,  
  Chief Legal Counsel

If to Tenant:                    Precision Monolithics, Inc.  
                                  1500 Space Park Drive  
                                  Santa Clara, California 95052  
                                  Attn: President

With copies to:                  Analog Devices, Inc.  
                                  One Technology Way  
                                  Norwood, Massachusetts 02062  
                                  Attn: Chief Financial Officer

And:                               Philip D. Stevenson, Esq.  
                                  Hale and Dorr  
                                  60 State Street  
                                  Boston, Massachusetts 02109

or, in each case, addressed to such other address or addresses as either Landlord or Tenant may for itself from time to time designate to the other as provided herein. Any such notice so mailed shall be deemed effective upon receipt or refusal of tender for receipt.

#### Article 30. QUIET ENJOYMENT

Tenant, upon paying the basic rent, additional rent and other charges herein provided for and observing and keeping the covenants, agreements and conditions of this Lease on its part to be kept, shall lawfully and quietly hold, occupy and enjoy the Premises during the term of this Lease without hindrance or molestation of anyone claiming by, through or under Landlord, subject, however, to the matters herein set forth.

Article 31. INTERPRETATION

31.1 The words "Landlord" and "Tenant," as used herein, shall include the plural as well as the singular. Words used in neuter gender include the masculine and feminine and words in the masculine or feminine gender include the neuter. The headings or titles to the articles of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part thereof.

31.2 The obligations imposed upon Tenant hereunder shall be joint and several.

31.3 Subject to the provisions of Article 17 hereof relating to assignment and subletting, this Lease is intended to and does bind and inure to the benefit of the heirs, executors, administrators, successors and assigns of any and all of the parties hereto.

31.4 Time is of the essence of this Lease.

31.5 This Lease shall be governed by and interpreted in accordance with the laws of the State of California.

31.6 If any term or provision of this Lease, the deletion of which would not adversely affect the receipt of any material benefit by either party hereunder, shall be held invalid or unenforceable to any extent, the remainder of this Lease shall not be affected thereby and each term and provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

31.7 The waiver by Landlord or Tenant of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of such term, covenant or condition as to any subsequent breach of the same or of any other term, covenant or condition herein contained. The subsequent acceptance of rent by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent.

31.8 This instrument, along with any exhibits and attachments or other documents affixed hereto or referred to herein, constitutes the entire and exclusive agreement between Landlord and Tenant relating to the Premises, and this agreement and said exhibits and attachments and other documents may be altered, amended or revoked only by an instrument in writing signed by the party to be charged thereby. All prior or contemporaneous oral agreements, understandings and/or practices relating to the Premises are merged in or revoked by this agreement. Notwithstanding any other provision of this Lease, Bourns, Inc. ("Bourns")

acknowledges and affirms its obligation to remediate existing soil and groundwater contamination on the Premises pursuant to the Stock Purchase Agreement by and between Bourns and Analog Devices, Inc., dated August 8, 1990 (the "SPA"), and agrees that to the extent that the terms and obligations of Bourns pursuant to the SPA are inconsistent with the terms and obligations of the Lease, the terms and obligations of the SPA shall supersede and govern the terms and obligations of this Lease. Tenant agrees to cooperate with and aid and assist Bourns as reasonably necessary in fulfilling Bourns' obligations under the SPA, at no out-of-pocket cost or expense, or liability to Tenant.

31.9 This Lease may be executed in one or more counterparts, each of which shall constitute an original and all of which shall be one and the same agreement.

31.10 In the event that any claim is made by one party against the other pursuant to this Lease, such claim shall be made on a bona fide, good faith determination by the party making such claim.

31.11 In the event of a sale of the Premises by Bourns or an Affiliate of Bourns to an unaffiliated party, Tenant shall have the right to terminate this Lease by notice to Landlord.

Submission of this Lease by either party shall not bind either party in any manner and no lease or other obligation on the part of either party shall arise, until this Lease is executed and delivered by both parties.

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

Landlord:  
Bourns, Inc.

Tenant:  
Precision Monolithics, Inc.

By /s/ Larry L. White  
-----  
Title: Exec. Vice President

By Alan King  
-----  
Title: President

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

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

Address:  
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Address:  
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Schedule A

COMSTOCK ROAD PROPERTY

All that certain real property situate in the City of Santa Clara, County of Santa Clara, State of California, described as follows

Portion of Lot 6 as shown on Map accompanying the final report of Referee in the Partition action had in the District County of the State of California in and for the County of Santa Clara, entitled "William C. Parker, et al, vs. Richard M. Kifer, et al, Case No. 3906", described as follows:

Beginning at the intersection of the Easterly line of Kenneth Street, 60 feet wide, as established by the Deed to the City of Santa Clara, recorded November 13, 1968, Book 8331, Official Records, page 499, with the Northerly line of the parcel of land described in the Deed to Foremost-McKesson, Inc., recorded June 5, 1968, Book 8146, Official Records, page 520; thence from said point of beginning S. 89{degree} 08' 35" E. along said Northerly line 395 feet to the Northeasterly corner of said Foremost McKesson, Inc., parcel of land; thence S. 0{degree} 51' 25" W. along the Easterly line of said parcel of land, 242.43 feet to the Northerly line Comstock Street as established by Deed to the County of Santa Clara, recorded November 1, 1967, Book 7913, Official Records, page 233; thence along said line of Comstock Street, N. 89{degree} 07' 32" W, 183.54 feet; thence continuing along said line of Comstock Street Westerly on curve to the right, with a radius of 15.111 feet, through a Central angle of 0{degree} 36' 44", for an arc distance of 161.51 feet; thence along the Easterly line of Kenneth Street Northwesterly along a compound curve to the right, with a radius of 50 feet, through a central angle of 90{degree} 45' 59" for an arc distance of 79.21 feet; thence continuing along said line of Kenneth Street, N. 0{degree} 59' 55" E. 193.15 feet to the point of beginning.

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE is made as of May 1, 1996, by and between BOURNS, INC., a California ("LANDLORD"), and ANALOG DEVICES, INC., a Massachusetts corporation ("TENANT"), successor by merger to Precision Monolithics, Inc.

WITNESSETH:

WHEREAS, Landlord and Tenant entered into a certain Lease dated August 8, 1990 (the "LEASE"), whereby Tenant leased from Landlord approximately 43,500 rentable square feet of office space in the building known as 1525 Comstock Road, Santa Clara, California, as such space is more particularly described in the Lease (the "PREMISES"); and

WHEREAS, Landlord and Tenant desire to extend the term of the Lease, to modify the rental to be paid for the Premises by Tenant pursuant to the Lease and to make certain other modifications to the Lease, all as set forth herein.

NOW, THEREFORE, in consideration of the sum of TEN AND NO/100 DOLLARS (\$10.00) in hand paid to Landlord by Tenant and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by Landlord, and in further consideration of the mutual agreements by and between the parties hereto, Landlord and Tenant agree as follows:

1. Unless otherwise defined herein, all capitalized terms used in this First Amendment to Lease shall have the meaning given to them in the Lease.

1. Subject to the terms and provisions of the Lease, as modified hereby, Landlord and Tenant hereby extend the Initial Term of the Lease for a period of seven (7) years, commencing August 8, 1995 and expiring August 7, 2002. Tenant shall continue to have the option to extend the term of the Lease for three (3) successive terms of five (5) years each pursuant to Article 2.2 of the Lease, the first of such option periods to commence, if so elected by Tenant, on August 8, 2002.

1. Notwithstanding the provisions of Article 3.1 of the Lease, Base Rent during the portion of the Initial Term commencing August 8, 1995 and expiring August 7, 2002 shall be in the amounts set forth in Exhibit A attached hereto and shall be payable in accordance with the terms of the Lease. Tenant previously has paid to Landlord Base Rent for the Premises for

the period August 8, 1995 through May 31, 1996 in the amount of \$31,637.50 per month. Such payments exceed by \$1,187.50 per month the Base Rent payable by Tenant for such period in accordance with the Lease, as amended hereby. Accordingly, Tenant shall receive a credit in the amount of \$11,875.00 towards Base Rent payable for June 1996.

I. Article 3.2 of the Lease is deleted in its entirety and the following is inserted in lieu thereof:

Base Rent for each Option Term shall be the fair rental value of the Premises at the inception of such Option Term based on the terms and conditions of this Lease. The fair rental value for each Option Term shall be determined by the following process: At least six (6) months prior to the commencement of an Option Term, Tenant and Landlord each shall obtain an appraisal of the fair rental value of the Premises, prepared by an MAI appraiser familiar with commercial rental rates for properties similar to the Premises in the Santa Clara, California area. Such appraisal shall determine the fair rental value of the Premises based on the terms and conditions of this Lease without, however, taking into account any improvements or alterations to the Premises constructed at the expense, exclusive of insurance proceeds, of Tenant. Each party shall notify the other of the fair rental value of the Premises, as determined by the appraiser retained by such party. If at least five (5) months prior to the commencement of an Option Term, the parties have not agreed in writing on a Base Rent amount, the two appraisers retained by Landlord and Tenant shall select a third appraiser (the "INDEPENDENT APPRAISER") to conduct an independent MAI appraisal, to be conducted by Coldwell Banker, or mutually agreeable equivalent, to determine the fair rental value of the Premises. The Base Rent for such Option Term shall be the average of the two closest appraisals of the fair rental value, as determined by the three appraisals, provided that, if one determination of the fair rental value equals the average of the other two determinations, such average shall be the Base Rent during such Option Term. For example, assume Tenant's appraiser believes that the fair rental value of the Premises is \$8.50 per rentable square foot and Landlord's appraiser believes that the fair rental value is \$10.00 per rentable square foot. If the Independent Appraiser indicates that the fair rental value of the Premises equals (i)\$8.00, the Base Rent shall be \$8.25, (ii)\$9.00, the Base Rent shall be \$8.75, (iii)\$9.25, the Base Rent shall be \$9.25, (iv)\$9.50, the

Base Rent shall be \$9.75, and (v)\$10.50, the Base Rent shall be \$10.25. Neither Landlord's appraiser nor Tenant's appraiser shall disclose to the Independent Appraiser their estimates of the fair rental value. Tenant and Landlord each shall pay the fees and expenses of the appraiser they retain to conduct an appraisal of the fair rental value of the Premises. The fees and reimbursable expenses of the Independent Appraiser shall be shared equally by Landlord and Tenant. If for any reason the Base Rent has not been ascertained by the commencement of the Option Term, Tenant shall pay on account of Base Rent an amount equal to the average of Landlord's appraiser's and Tenant's appraiser's determinations of the fair rental value of the Premises, until such time as the actual Base Rent shall have been established in accordance with the terms of this paragraph.

1. This First Amendment may be executed in multiple counterpart copies, each of which together shall constitute a single instrument, and exchange of counterparts by facsimile transmission shall be equivalent to exchange of original counterparts.

1. As expressly modified hereby, the Lease continues in full force and effect.

IN WITNESS WHEREOF, the undersigned have executed this First Amendment to Lease, as of the date first written above.

BOURNS, INC.

By:

-----  
W.P. McKenna  
Vice President

ANALOG DEVICES, INC.

By:

-----  
Name:  
Title:

EXHIBIT A

1525 Comstock Road  
Santa Clara, California

Lease Year	Base Rent Per Annum
August 8, 1995 through August 7, 1997	\$365,400
August 8, 1997 through August 7, 1999	\$391,500
August 8, 1999 through August 7, 2001	\$417,600
August 8, 2001 through August 7, 2002	\$443,700

LEASE

THIS LEASE, dated August 8, 1990, is made between Bourns, Inc., a California corporation ("Landlord"), and Precision Monolithics, Inc., a California corporation ("Tenant").

Recitals:

WHEREAS, pursuant to the terms of the Stock Purchase Agreement dated August 8, 1990 (the "SPA") by and between Landlord and Analog Devices, Inc. ("Analog"), Analog is acquiring all of the stock of Tenant; and

WHEREAS, the Premises have been conveyed to Landlord with the intention of leasing such Premises back to Tenant, upon the terms and conditions of this Lease; and

WHEREAS, Landlord has agreed in the SPA to retain all responsibilities and obligations to continue and complete a "VOC Remediation Program" (as defined in the SPA); and

WHEREAS, pursuant to the SPA, Landlord has retained responsibility and liability for certain "Excluded Liabilities" (as defined in the SPA) with respect to obligations for all of the costs, charges, obligations, penalties and liabilities arising out of or in connection with "Environmental Liabilities" (as defined in the SPA); and

WHEREAS, the parties are entering into this Lease Agreement, as contemplated by the SPA.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements set forth herein and in the SPA and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Article 1. PREMISES

Landlord hereby leases to Tenant and Tenant hereby hires from Landlord, subject to all terms and conditions of this Lease, those certain premises commonly known as 1500 Space Park Drive, Santa Clara, California consisting of approximately 5 acres and including two buildings containing approximately 72,800 square feet of

rentable area, all building improvements and fixtures attached thereto and all easements appurtenant thereto (the "Premises").

A legal description of the Premises is attached hereto as Schedule A.

#### Article 1A. ENVIRONMENTAL MATTERS

1A.1 Landlord acknowledges its continuing obligations under the SPA for the Excluded Liabilities with respect to the Environmental Liabilities and the VOC Remediation Program (all as defined in the SPA and incorporated herein by reference). To the extent that an obligation of Tenant under this Lease is in conflict with or is inconsistent with an obligation of Landlord under the SPA with respect to the Excluded Liabilities, with respect to the Environmental Liabilities and the VOC Remediation Program, the provisions of the SPA shall prevail over the provisions of the Lease, and Landlord's obligation shall supersede and be substituted for the conflicting or inconsistent obligation of the Tenant.

1A.2 Landlord has disclosed to Tenant the presence of asbestos and asbestos-containing materials ("Asbestos") on and in the Premises. Landlord represents and warrants to Tenant that the condition of the Asbestos on the Premises is not in violation of any applicable law, rule or regulation as of the date of this Lease. To the extent that Tenant's use of the Premises causes the condition of the Asbestos to be in violation of any applicable legal requirement, Tenant shall be responsible for all costs, expenses and liabilities associated with the encapsulation or removal of the affected Asbestos. Except to the limited extent set forth in the immediately preceding sentence, Landlord shall be responsible for the costs and expenses incurred by Tenant at any time during the Term of the Lease, or thereafter, in connection with the removal or encapsulation of the Asbestos. Landlord acknowledges that Tenant may incur such costs and expenses as a result of any of the following:

(a) any action by any governmental authority requiring the encapsulation or removal of any Asbestos from the Premises;

(b) any action by any governmental authority in lieu of removal or encapsulation, requiring cessation or curtailment of Tenant's business activity in all or any portion of the Premises as a result of the presence of Asbestos.

1A.3 Tenant shall have the right to terminate this Lease by notice to Landlord upon the occurrence of any of the following:

(a) any action by any governmental authority requiring cessation or curtailment of Tenant's business activity in all or any portion of the

Premises as a result of any Environmental Liabilities or the presence of Asbestos on or in the Premises; or

(b) any breach by Landlord of any of its obligations under this Article 1A.

Tenant shall give Landlord notice of the occurrence of an event giving Tenant the right to terminate. If Landlord fails to cure such condition within thirty (30) days after such written notice, then Tenant may terminate this Lease by notice to Landlord; provided, however, that if the nature of such default is such that the same cannot reasonably be cured within such thirty (30) day period, Tenant shall not have the right to terminate if Landlord shall within such period commence such cure and thereafter diligently prosecute the same to completion.

1A.4 Landlord shall reimburse Tenant for any and all capital costs and expenses incurred by Tenant, in excess of \$407,500.00, in connection with the improvements to the holding tank, vault and pipeline for the wastewater fluoride treatment system serving the Premises ("the Facility") as may be necessary to bring the Facility into full compliance with any applicable laws and regulations in effect as of the date of this Lease; provided, that all such improvements are made within twelve (12) months after the date of this Lease. In the event Tenant is required to obtain any permits for the Facility, Landlord shall cooperate with Tenant in obtaining all such permits.

1A.5 Landlord represents and warrants to Tenant that, as of the date of this Lease, the ventilation ducts on or in the Premises are in compliance with applicable laws and regulations. In the event of any breach of the foregoing representation, Landlord shall pay for all costs and expenses incurred by Tenant in bringing such ducts into compliance with all such laws and regulations.

1A.6 Landlord and its agents and employees shall have the right to enter the Premises for purposes of complying with its obligations under the SPA and this Article 1A; provided, however, that Landlord shall at all times use its reasonable efforts to avoid or minimize any interference or disruption to Tenant's business as a result of such entry. Tenant agrees to Cooperate with and aid and assist Landlord as reasonably necessary in fulfilling Landlord's obligations under the SPA, as referenced in Section 1A.1, at no out-of-pocket cost or expense, or liability to Tenant.

## Article 2. TERM

2.1 The Initial Term of this Lease, unless sooner terminated as provided herein, shall be five (5) years, commencing on August 8, 1990 (the "Commencement Date").

2.2 Provided there exists no uncured default by Tenant under this Lease, Tenant shall have the option to extend this Lease for three (3) successive terms of five (5) years each (the "Option Terms"). Tenant shall exercise its option for each Option Term, if at all, by written notice to be given to Landlord no later than nine months prior to expiration of the Initial Term or, if Tenant at the time of such extension occupies the Premises pursuant to the earlier exercise of an Option Term, the then-existing Option Term. All references in this Lease to the Term of this Lease shall mean, where appropriate, the Initial Term as extended by the exercise of the Option Terms. All of the terms and provisions of this Lease shall be applicable equally during any Option Term, except that effective on the commencement date of the second Option Term (the first day of the eleventh year of the Lease), the provisions of Article 1A and Section 28A shall be of no further force and effect. Tenant agrees, upon the request of Landlord, to reexecute the Lease without such provisions.

### Article 3. RENT

3.1 Base Rent for the Initial Term shall be Nine Hundred and Twenty Thousand Dollars (\$920,000.00) per annum. Base Rent shall be payable in twelve (12) equal installments on the first day of each month in advance, except that the portion of Base Rent payable for the fraction of the month starting with the Commencement Date shall be paid on the Commencement Date, prorated on the basis of the actual number of days in said month. If the Initial or any Option Term hereof ends on a day other than the last day of a month, then the portion of the Base Rent for the month during which said expiration occurs shall be prorated on the basis of the actual number of days in said month.

3.2 Base Rent for each Option Term shall be the fair rental value of the Premises at the inception of such Option Term based on the terms and conditions of this Lease. The fair rental value for each Option Term shall be determined by the following process: At least six (6) months prior to the commencement of an Option Term, Tenant and Landlord shall each notify the other of the Base Rent it believes represents the fair rental value of the Premises. If at least four (4) months prior to the commencement of an Option Term, the parties have not agreed in writing on a Base Rent amount, Landlord and Tenant shall determine the fair rental value of the Premises by MAI appraisal conducted by Coldwell Banker, or mutually agreeable equivalent, based on the terms and conditions of this Lease without, however, taking into account any improvements or alterations to the Premises constructed at the expense, exclusive of insurance proceeds, of Tenant. The Base Rent for such Option Term shall be the amount previously proposed by either party that is closer in amount to the appraised rental value. In the event that neither Landlord's nor Tenant's estimate of the fair rental value is closer to the appraised rental value, the Base Rent shall be equal to the appraised rental value. Neither party shall disclose to the appraiser its estimate of the fair rental value. The fees and reimbursable expenses

of such appraiser shall be paid by the party whose estimate prevails. If for any reason the Base Rent has not been ascertained by the commencement of the Option Term, Tenant shall pay on account of Base Rent an amount equal to the average of the two proposed Base Rents until such time as the actual Base Rent shall have been established.

3.3 Throughout the term of this Lease, Tenant shall pay, as additional rent, all other amounts of money and charges required to be paid by Tenant under this Lease, whether or not such amounts of money or charges are designated "additional rent." As used in this Lease, "rent" shall mean and include all Base Rent and additional rent payable by Tenant in accordance with this Lease.

3.4 Tenant shall pay all Base Rent under Section 3.1 or Section 3.2 hereof to Landlord, monthly, in advance, on or before the first day of each and every calendar month during the term of this Lease and shall pay all additional rent promptly when due to the person entitled to receive the same. All rent payable to Landlord shall be paid without deduction or offset, except as otherwise provided herein, in lawful money of the United States of America at the address for Landlord set forth on the signature page hereof, or to such other person or at such other place as Landlord may from time to time designate in writing.

#### Article 4. NET LEASE

It is the intention of Landlord and Tenant that, except as otherwise provided herein, the Base Rent payable by Tenant to Landlord during the entire Term of this Lease shall be absolutely net of all costs and expenses incurred in connection with the management, operation, maintenance and repair of the Premises and every part thereof in accordance with this Lease. Subject to Landlord's obligations under Articles 1A, 11 and 14 hereof, Tenant shall manage, operate, maintain and repair the Premises and keep the Premises in compliance with all applicable laws and regulations in accordance with this Lease and shall pay all costs and expenses incurred in connection therewith before such costs or expenses become delinquent.

#### Article 5. TAXES

5.1 Tenant shall pay, prior to delinquency, as additional rent, all "Property Taxes" (as hereinafter defined) that accrue during or are allocable to the term of this Lease. Landlord shall promptly deliver to Tenant any statements or bills received by Landlord with respect to Property Taxes. Tenant shall receive the benefit of any discount for early payment of such Property Taxes, even if such taxes are not paid early, if Tenant is prevented from paying the taxes early due to Landlord's failure to deliver the bill to Tenant in a timely fashion. No later than ten (10) days after

Landlord delivers to Tenant a request for evidence of payment of any such amount, Tenant shall deliver to Landlord a receipt or other evidence satisfactory to Landlord that such bill or statement has been paid.

5.2 "Property Taxes" shall mean all taxes, assessments, excises, levies, fees and charges (and any tax, assessment, excise, levy, fee or charge levied wholly or partly in lieu thereof or as a substitute therefor or as an addition thereto) of every kind and description, general or special, ordinary or extraordinary, foreseen or unforeseen, secured or unsecured, whether or not now customary or within the contemplation of Landlord or Tenant, that are levied, assessed, charged, confirmed or imposed by any public or government authority on or against, or otherwise with respect to, (i) the Premises or any part thereof or any personal property used in connection with the Premises; (ii) any rent payable under this Lease, including, without limitation, any gross income tax or excise tax, levied by any public or government authority with respect to the receipt of any rent with respect to the Premises, but only to the extent no exemption, exclusion or abatement is available to Landlord, at no cost or expense to Landlord, with respect to such tax, or (ii) the possession, leasing, operation, management, maintenance, alternation, repair, use or occupancy by Tenant of the Premises, together with all interest, fines and other charges assessed for the late payment of any thereof. Property Taxes shall not include net income (measured by the income of Landlord from all sources or from sources other than solely rent under this Lease), franchise, documentary transfer, inheritance or capital stock taxes of Landlord, unless levied or assessed after the Commencement Date against Landlord in whole or in part expressly in lieu of or as a substitute for any Property Taxes.

5.3 Tenant shall have the right to contest any Property Taxes imposed against the Premises or any part thereof, provided (i) the same is done at Tenant's sole cost and expense, (ii) non-payment of such Property Tax will not subject the Premises or any part thereof to sale or other liability by reason of such non-payment, (iii) such contest shall not subject Landlord to the risk of any criminal or civil liability, (iv) Tenant shall provide a bond in form and substance as required by applicable law, and (v) Tenant pays the amount determined to be due promptly after the conclusion of such contest. Landlord agrees to execute and deliver to Tenant any and all documents reasonably required, and to cooperate with Tenant in every respect, in any such contest, but without any cost or expense to Landlord. Landlord agrees not to intervene, compromise or prejudice Tenant's tax abatement or contest case, provided that Tenant remains at all times in full compliance with this Article 5.

#### Article 6. SERVICES

Tenant shall, at Tenant's sole cost and expense, arrange and pay for all utilities required for the conduct of its business. Landlord shall not be in default hereunder or be liable for any damage or loss directly or indirectly resulting from, nor shall the

rent be abated or a constructive or other eviction be deemed to have occurred by reason of, the installation, use or interruption of use of any equipment in connection with the furnishing of any of the foregoing services, any failure to furnish or delay in furnishing any such services, whether such failure or delay is caused by accident or any condition beyond the control of Landlord or Tenant or by the making of repairs or improvements to the Premises, or any limitation, curtailment, rationing or restriction on use of any utility, whether such results from mandatory governmental restriction or voluntary compliance with governmental guidelines, unless, with respect to each of the foregoing conditions, it is due solely to the act or omission of Landlord or its agents or employees.

#### Article 7. USE OF PREMISES

Tenant shall use and occupy the Premises for the manufacturing of semiconductors and activities reasonably related or ancillary thereto and shall not use or occupy the Premises for any other purpose without the prior written consent of the Landlord, which approval shall not be unreasonably withheld or delayed. Tenant's use shall at all times be in compliance with the provisions of Article 15 hereof. Tenant shall not commit, or suffer to be committed, any act which (a) is in violation of any insurance requirement which is a condition to the validity of any insurance policy with respect to the Premises, (b) is in violation of the terms of any insurance policy, or (c) may cause a cancellation of any such insurance for the Premises.

#### Article 8. ACCEPTANCE OF PREMISES

Subject to the obligations of Landlord under Article 1A, the Premises shall be let in their present condition, i.e. "as is," and subject to any facts which would be revealed by a survey or physical inspection thereof, the state of title as it presently exists and all laws, ordinances and restrictions applicable thereto. Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the Premises or with respect to the suitability or fitness of the Premises or the conduct of Tenant's business or for any other purpose. Notwithstanding the foregoing sentence, Landlord does represent that the use of the Premises by Landlord's immediate predecessor in title was in material conformance with all laws, ordinances and regulations relating to zoning and land use applicable to the Premises. The taking of possession or use of the Premises by Tenant for any purpose shall conclusively establish that the Premises were at such time in satisfactory condition and in conformity with the provisions of this Lease in all respects. Nothing contained in this Article 8 shall affect the commencement of the Term of this Lease or the obligation of Tenant to pay rent hereunder as provided in Article 3 hereof.

## Article 9. ALTERATIONS

9.1 Tenant shall not make any alterations, additions or improvements in or to the Premises or any part thereof, or attach any fixtures or equipment thereto, without Landlord's prior written consent. Landlord's approval shall not be unreasonably withheld or delayed but may be subject to such conditions as Landlord may reasonably require. Tenant shall not be required to restore any alterations, additions or improvements made by Tenant during the Term, unless such restoration is required by Landlord at the time of such alteration, addition or improvement. In addition, Tenant may make such alterations, additions or improvements without Landlord's consent, but with notice to Landlord, if the total per-project cost of such alterations, additions or improvements is \$200,000.00 or less, and such alterations, additions or improvements will not affect the structural elements of the Premises, detract from the fair rental or market value of the Premises or increase the costs of the remediation contemplated in Article 1A hereof. Tenant will comply with all applicable codes, laws, ordinances, rules or regulations in connection with any alterations, additions or improvements. All alterations, additions or improvements in or to the Premises shall be made by Tenant at Tenant's sole cost and expense, shall be made expeditiously once work is begun and shall be completed in a good and workmanlike manner using first class materials. No part of the Premises shall be demolished unless Landlord has received an acceptable surety bond assuring reconstruction. Tenant shall, at its expense, provide builder's risk insurance naming Landlord as an insured during the period of any construction work.

9.2 All alterations, additions or improvements requiring Landlord's consent shall be as follows:

(a) Tenant shall submit to Landlord, for Landlord's written approval, complete plan and specifications for all work to be done by Tenant. Such plans and specifications shall be prepared by licensed architect(s) and engineer(s) approved by Landlord, such approval not to be unreasonably withheld or delayed, shall comply with all applicable codes, ordinances, rules and regulations, shall be in a form sufficient to secure the approval of all government authorities with jurisdiction over the Premises, and shall be otherwise satisfactory to Landlord in Landlord's reasonable discretion. Landlord's failure to respond to a request for plan approval within thirty (30) days shall be deemed approval of such plans.

(b) Tenant shall, through Tenant's licensed contractor, perform the work substantially in accordance with the plans and specifications approved in writing by Landlord. All material changes in the plans and specifications approved by Landlord shall be subject to Landlord's prior written approval. Any such change shall be based upon revised plans and specifications prepared by the licensed architect(s) and

engineer(s) approved by Landlord, such approval not to be unreasonably withheld or delayed.

(c) Tenant shall pay the entire cost of all work (including the cost of all utilities, permits, fees, taxes, and property and liability insurance premiums in connection therewith) required to make the alterations, additions or improvements. Under no circumstances shall Landlord be liable to Tenant for any damage, loss, cost or expense incurred by Tenant on account of any plans and specifications, contractors or subcontractors, design of any work, construction of any work, or delay in completion of any work.

9.3 All improvements, alterations, additions and fixtures (other than trade fixtures), whether temporary or permanent in character, made in or to the Premises by Tenant, shall remain the property of Tenant until the expiration or earlier termination of this Lease, whereupon they shall become part of the Premises and Landlord's property. All movable furniture, equipment, trade fixtures, computers, office machines and other personal property of Tenant shall remain the property of Tenant. Upon the expiration or earlier termination of this Lease, Tenant shall, at Tenant's expense, remove all such movable furniture, equipment, trade fixtures, computers, office machines and other personal property from the Premises and repair all damage caused by such removal; provided, however, that Tenant shall not be obligated to make any repairs to wall or floor coverings or otherwise make repairs if Landlord intends to otherwise demolish or renovate the Premises so that for all practical purposes, the repairs would be in vain. This Section 9.3 shall survive the expiration or earlier termination of this Lease.

#### Article 10. LIENS

Tenant shall promptly discharge or bond off any liens and encumbrances whatsoever, including mechanics' liens, arising out of any work performed, materials furnished or obligations incurred by or on behalf of Tenant. Tenant shall indemnify and hold harmless Landlord from and against any such lien or claim or action thereon, and reimburse Landlord promptly upon demand therefor by Landlord for costs of suit and reasonable attorneys' fees incurred by Landlord in connection with any such claim or actions.

#### Article 11. MAINTENANCE AND REPAIR

11.1 Landlord shall, throughout the Term, at Landlord's sole cost and expense (a) make all structural repairs to the Premises including, without limitation, repairs to the roof, the exterior and load bearing walls, the structural columns and the foundation, and (b) to the extent required within six (6) months from the date of this

Lease, make all capital replacements (not including overhauls or upgrades) to the plumbing, mechanical, electrical and HVAC systems and equipment (specifically excluding filters and scrubbers) existing in the Premises as of the date of this Lease, but only to the extent the cost of each such capital replacement exceeds \$10,000. Landlord shall not be responsible for the matters listed in (a) or (b) above to the extent any such structural repair or capital replacement is made necessary by any act or omission of Tenant, its agents or employees.

11.2 Except as provided in Section 11.1, Tenant shall, at Tenant's sole cost and expense, and at all times, keep and maintain the Premises and every part thereof, in good working order and condition and shall make all normal and ordinary repairs and replacements which may be necessary to keep the Premises in good working order and condition, subject to ordinary wear and tear. Tenant, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices. Tenant shall at all times maintain the current slope, grade and drainage of the land included in the Premises. Landlord and Tenant expressly waive the benefit of Section 1942 of the California Civil Code, as the same may be amended in the future, or any statutory provision enacted in lieu thereof.

#### Article 12. ENTRY BY LANDLORD

Landlord shall have the right to enter the Premises at any time during an emergency and at reasonable times upon prior notice to (i) inspect the Premises, (ii) exhibit the Premises to prospective purchasers or lenders, or, within 6 months prior to the expiration of the Term, prospective tenants, (iii) determine whether Tenant is performing all of Tenant's obligations under any portion of this Lease, (iv) post notices of nonresponsibility, (v) perform any inspection or action requested or ordered by any governmental authority and (vi) make any repairs to the Premises which, following requisite notice hereunder, Tenant has failed to perform. Except to the extent caused by the gross negligence or wilful misconduct of Landlord or Landlord's agents or employees, Tenant waives all claims for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises or any other loss occasioned by such entry; provided that Landlord shall have used reasonable efforts to avoid or minimize any disturbance or disruption to Tenant's business.

#### Article 13. LIMITATIONS ON LANDLORD'S LIABILITY; INDEMNITY; INSURANCE

13.1 Landlord shall not be liable to Tenant under this Lease, nor shall Tenant be entitled to terminate this Lease or to any abatement of rent, for any damage to or loss or theft of any property or for any bodily or personal injury, illness or death of

any person in, on or about the Premises or for any loss to Tenant's business arising at any time and from any cause whatsoever (except to the extent caused by the gross negligence or wilful misconduct of Landlord or its agents or employees). Tenant waives all claims against Landlord arising from any liability described in this Section 13.1 (except to the extent caused by the gross negligence or wilful misconduct of Landlord or its agents or employees). This Section 13.1 shall not affect Landlord's obligations under Article 1A.

13.2 Subject to Article 1A and Section 11.1 hereof, Tenant shall indemnify, hold harmless and defend Landlord, its officers, directors, stockholders, partners, employees, agents and representatives and any other party acting on behalf of Landlord against all claims, demands, causes of action, liabilities, damages, losses, costs and expenses, including reasonable attorneys' fees and disbursements, arising from or related to any use or occupancy of the Premises, or any condition of the Premises, or any default in the performance of Tenant's obligations, or any damage to any property (including property of employees and invitees of Tenant) or any bodily or personal injury, illness or death of any person (including employees and invitees of Tenant) occurring in, on or about the Premises or any part thereof arising at any time and from any cause whatsoever (except to the extent caused by the negligence or misconduct of Landlord or its agents or employees) or occurring outside the Premises when such damage, bodily or personal injury, illness or death is caused by any act or omission of Tenant or its agents, officers, employees, contractors, invitees or licensees. This Section 13.2 shall survive the expiration or earlier termination of this Lease with respect to any damage, bodily or personal injury, illness or death occurring prior to such termination.

13.3 Tenant shall at all times, at its sole cost and expense, obtain, or cause Analog to obtain, pay for and maintain in full force and effect such insurance policy or policies as Landlord may from time to time reasonably request, including the following:

(a) "All-Risk" property (including boiler and machinery) insurance, on a replacement cost basis covering the Premises in an amount no less than the full replacement cost thereof, excluding insurance coverage for the peril of earthquake, including the costs of demolition and increased cost of construction and contingent liability arising out of the need to comply with any building code, law or regulation, to the extent the loss is due to direct physical loss to the Premises from an insured peril. Loss covered by such insurance shall be adjusted by Tenant subject to approval of Landlord, such approval not to be unreasonably withheld or delayed, and the proceeds of such insurance shall be payable solely to Landlord and Tenant or any Lender designated as mortgagee or loss payee. Landlord shall be designated as named insured in such policies and any Lender designated by Landlord shall be included as mortgagee or loss payee relative to all real property. All risk property policies may provide for reasonable deductibles (which at the inception of this Lease

is \$100,000). To the extent Landlord maintains insurance coverage against the peril of earthquake with respect to the Premises, Tenant agrees to reimburse Landlord for the annual premium, up to a maximum of \$13,000.00 per year.

(b) Commercial general liability in respect to occurrences arising out of or relating to the operation, maintenance and use of the Premises, and umbrella liability insurance covering Tenant and Landlord as named insureds against claims arising out of liability for bodily injury and death and personal injury and advertising injury and property damage occurring in and about the Premises and otherwise resulting from any acts and operations of Tenant and Landlord with limits not less than the existing or future limits of such insurance generally purchased by Tenant with respect to any other premises or operations of Tenant but in no event less than a total combined single limit of \$10,000,000 per occurrence and \$50,000,000 annual general aggregate. Such insurance may provide for a reasonable deductible (which at the inception of this Lease is \$100,000). If commercially and reasonably available to Tenant, such policies shall be in occurrence form and cross liability and severability of interests shall apply (with the exception of limits of liability)

(c) Workers' compensation and employer's liability insurance in the state in which the Premises are located. The total limits of the employer's liability coverage shall not be less than the amounts required by applicable law.

(d) Such other appropriate endorsements or extensions of coverage as would be deemed reasonable for a prudent landlord to require with respect to other similar properties, provided they are available at a commercially reasonable cost.

(e) In the event that any deductible or otherwise self-insured retention amounts are applicable with respect to any loss or claim under any of the insurance described in this Article 13 or otherwise, all such amounts shall be entirely paid by Tenant.

13.4 All insurance required under this Article 13 and all renewals thereof shall be issued by good and responsible companies rated not less than "A; 25 million policy holder surplus" by Best's Insurance Guide and qualified to do and doing business in California. Each policy shall expressly provide that the policy shall not be cancelled or altered without thirty (30) days' prior written notice to Landlord and any designated Lender; provided that Tenant shall use its reasonable efforts to have each policy expressly provide that it shall not be cancelled or altered without sixty (60) days' prior written notice to Landlord and any designated Lender. All insurance under Articles 13.3(a) and 13.3(b) shall be primary and noncontributing with any insurance which may be carried by Landlord. The term "Lender" means any institutional holder of a first or second mortgage lien encumbering the Premises or any part thereof.

13.5 The insurance required by this Lease, at the option of Tenant, may be effected by blanket policies, umbrella policies or both issued to Tenant covering the Premises and other properties owned or leased by Tenant, provided that the policies otherwise comply with the provisions of this Lease and allocate to the Premises the specified coverage. Tenant shall furnish to Landlord or any Lender of Landlord certificates of insurers, evidencing the existence of such policies and Tenant shall also provide copies certified by Tenant of such policies in which Landlord has an insurable interest as soon as such policies are received from the insurance companies upon Landlord's request with schedules thereto attached showing the amount of insurance afforded by such policies applicable to the Premises. If Tenant fails to insure or fails to furnish to Landlord upon notice to do so any such certificate thereof as required, Landlord shall have the right to effect such insurance for the benefit of Tenant or Landlord or any Lender or any or all of them, and all premiums paid by Landlord shall be payable by Tenant as additional rent on demand.

13.6 Landlord covenants that any person entering the Premises to perform physical work or activity on the Premises on behalf of Landlord shall be covered by comprehensive general liability insurance with a combined single limit of not less than \$1,000,000, and by workmen's compensation insurance, if and to the extent required by law. Landlord shall use reasonable efforts to assure that all other persons entering on the Premises on behalf of Landlord are similarly insured.

#### Article 14. HAZARDOUS SUBSTANCES

14.1 Tenant shall not engage in any activity in, on or about the Premises involving the generation, transportation, use, storage, spill, release or disposal of Hazardous Substances without the express prior written consent of Landlord and compliance in a timely manner (at Tenant's sole cost and expense) with all Applicable Law (as defined in Article 15). "Hazardous Substances" as used in this Lease shall mean any substance or material, or mixture or waste containing such substance or material, regardless of quantity or concentration, which is or may be (i) subject to regulation under state, federal or local law, (ii) a basis for liability of Landlord to any governmental agency or third party under any applicable statute, regulation or common-law theory. Notwithstanding the foregoing, Tenant may, without Landlord's prior consent, but in compliance with all Applicable Law, generate, transport, use, store or dispose of Hazardous Substances on the Premises as is necessary to conduct business, as permitted by Article 7, on the Premises.

14.2 {Intentionally omitted.}

14.3 As soon as practicable after the date hereof, Landlord shall prepare and deliver to Tenant a list of certain Hazardous Substances, which shall be attached to this Lease as SCHEDULE B. Tenant shall, following receipt of such SCHEDULE B, during

the Term of this Lease, notify Landlord of (a) any Hazardous Substances not identified on SCHEDULE B which are located, stored or used by Tenant on the Premises, and (b) any material increases in the quantity of any Hazardous Substance listed on SCHEDULE B. Tenant shall use reasonable efforts to notify Landlord prior to ordering or purchasing any Hazardous Substance not listed on SCHEDULE B. In addition, Tenant shall notify Landlord of any release of a Hazardous Substance at the Premises, if and when Tenant determines that such release is required to be reported to any local, state or federal governmental authority.

14.4 Subject to Article 1A hereof, Tenant shall indemnify, protect, defend and hold Landlord, its agents, employees, lenders and ground lessor, if any, and the Premises, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, costs, claims, liens, expenses, penalties, permits and attorney's and consultant's fees arising out of or involving any Hazardous Substance or storage tank brought onto the Premises by or for Tenant or under Tenant's control. Tenant's obligations under this Article 14 shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Tenant, and the cost of investigation (including consultant's and attorney's fees and testing), removal, remediation, restoration, and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Landlord and Tenant shall release Tenant from its obligations under this Lease with respect to Hazardous Substances or storage tanks, unless specifically so agreed by Landlord in writing at the time of such agreement.

14.5 Subject to Article 1A, if a release of a Hazardous Substance occurs for which Tenant is responsible ("Hazardous Substance Condition"), Tenant shall make the investigation and remediation thereof required by Applicable Law, and this Lease shall continue in full force and effect, but subject to Landlord's rights under Articles 21 and 22 hereof. If after sixty (60) days written notice to Tenant from Landlord of Tenant's obligations under this Section Tenant has failed to begin investigation and remediation of such Hazardous Substance Condition, Landlord may, upon thirty (30) days' written notice to Tenant, terminate this Lease unless Tenant, in such thirty (30) days notice period, begins investigation and remediation of such Hazardous Substance Condition and agrees in writing to pay for the investigation and remediation of such Hazardous Substance Condition at Tenant's sole expense and without reimbursement from Landlord.

#### Article 15. TENANT'S COMPLIANCE WITH LAW

15.1 Except as otherwise provided in this Lease, Tenant shall, at Tenant's sole cost and expense, fully, diligently and in a timely manner, comply in all respects with all "Applicable Law," which term is used in this Lease to include all laws, rules,

regulations, ordinances, and directives or any state, federal or local governmental authority relating in any manner to the Premises. Tenant shall, within five (5) days after receipt of Landlord's written request, provide Landlord with copies of all documents and information, including, but not limited to, permits, registrations, manifests, applications, reports and certificates, evidencing Tenant's compliance with any Applicable Law specified by Landlord, and shall immediately upon receipt, notify Landlord in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Tenant or the Premises to comply with any Applicable Law.

15.2 Notwithstanding Section 15.1, Tenant shall have the right to contest the validity or applicability to Tenant or to the Premises of any Applicable Law, provided (i) the same is done at Tenant's sole cost and expense, (ii) non-compliance with such Applicable Law will not subject the Premises or any part thereof to sale or other liability by reason of such non-compliance, (iii) such contest shall not subject Landlord to the risk of any criminal or civil liability, (iv) Tenant shall provide security in form and amount reasonably requested by Landlord, taking into account the factors listed in subclauses (i), (ii) and (iii) above, and (v) Tenant complies with such Applicable Law promptly after the conclusion of such contest, if determined adversely to Tenant.

#### Article 16. WAIVER OF SUBROGATION

Any insurance carried by either party with respect to the Premises or property therein or occurrences thereon shall, if it can be so written without additional premium or with an additional premium which the other party agrees to pay, include a clause or endorsement denying to the insurer rights of subrogation against the other party to the extent rights have been waived by the insured prior to occurrence of injury or loss. Each party, notwithstanding any provisions of this Lease to the contrary, hereby waives any rights of recovery against the other for injury or loss due to hazards covered by such insurance to the extent of the indemnification received thereunder.

#### Article 17. ASSIGNMENT AND SUBLETTING

17.1 Except to an entity controlling, controlled by or under common control with Tenant (an "Affiliate"), or to a successor to Tenant by way of merger, consolidation or the sale of all or substantially all of Tenant's assets, Tenant shall not either voluntarily or by operation of law assign, encumber, pledge or otherwise transfer or hypothecate all or any part of Tenant's leasehold estate hereunder, or permit the Premises to be occupied by anyone other than Tenant or an Affiliate, or Tenant's or such Affiliate's employees, or sublet the Premises or any portion thereof,

without Landlord's prior written consent, which shall not be unreasonably withheld or delayed; provided, however, that no one but Tenant, an Affiliate, or a successor to Tenant by way of merger, consolidation or the sale of all or substantially all of Tenant's assets, may exercise any Option to extend the Term of this Lease, so that the occupancy of any sublessee shall be limited to the balance remaining in the term during which such sublessee's occupancy begins. No collection or acceptance of rent by Landlord from any person shall be deemed a waiver of any provision of this Article 17, the acceptance of any assignee or subtenant as the tenant hereunder or a release of Tenant from any obligation under this Lease, whether theretofore or thereafter accruing.

17.2 If Tenant desires at any time to assign this Lease or to sublet the Premises or any portion thereof, it shall first notify Landlord of its desire to do so and shall submit in writing to Landlord (a) the name of the proposed subtenant or assignee; (b) the nature of the proposed subtenant's or assignee's business to be carried on in the Premises; (c) the terms and provisions of the proposed sublease or assignment, and (d) such financial information as Landlord may reasonably request concerning the proposed subtenant or assignee.

17.3 At any time within fifteen (15) days after Landlord's receipt of the information specified in Section 17.2 hereof, Landlord may by written notice to Tenant elect to (a) consent to the proposed subletting or assignment, in which event Tenant may within ninety (90) days thereafter, enter into a valid assignment or sublease of the Premises or portion thereof with such proposed assignee or sublessee, upon the terms and conditions set forth in the information furnished by Tenant to Landlord pursuant to Section 17.2 hereof, or (b) refuse to give its consent, specifying in reasonable detail the reason(s) therefor.

17.4 No consent by Landlord to any assignment or subletting by Tenant shall relieve Tenant of any obligation to be performed by Tenant under this Lease, whether accruing before or after such consent, assignment or subletting. The consent by Landlord to any assignment or subletting shall not relieve Tenant or any successor, assignee or subtenant of Tenant, from the obligation to obtain Landlord's express written consent to any other assignment or subletting. Any assignment or subletting which is not in compliance with this Article 17 shall be void and, at the option of Landlord, constitute a default by Tenant hereunder.

17.5 Each assignee, other than Landlord, shall assume all obligations of Tenant under this Lease and shall be and remain liable jointly and severally with Tenant for the payment of the rent, and for the due performance of all the terms, covenants, conditions and agreements herein contained on Tenant's part to be performed for the term of this Lease; provided, however, that the assignee shall be liable to Landlord for rent only in the amount set forth in the assignment or transfer. No assignment shall be binding on Landlord unless such assignee or Tenant shall deliver to

Landlord a counterpart of such assignment and an instrument in recordable form which contains a covenant of assumption by the assignee satisfactory in substance and form to Landlord, consistent with the requirements of this Section 17.5, but the failure or refusal of the assignee to execute such instrument of assumption shall not release or discharge the assignee from its liability as set forth above.

17.6 The voluntary or other surrender of this Lease by Tenant or a mutual cancellation hereof shall not work a merger, and shall at the option of Landlord, terminate all or any existing subleases or subtenancies or operate as an assignment to Landlord of such subleases or subtenancies.

17.7 Tenant shall reimburse Landlord for Landlord's reasonable costs, including, without limitation, its attorneys' fees, incurred in conjunction with the processing and documentation of any assignment, subletting, transfer, change of ownership or hypothecation of this Lease or Tenant's interest in and to the Premises, or Tenant's request for Landlord's consent to any thereof.

#### Article 18. TRANSFER OF LANDLORD'S INTEREST

In the event of any transfer or transfers of Landlord's interest in the Premises, other than a transfer for security purposes only, the transferor shall be automatically relieved of any and all obligations and liabilities on the part of Landlord accruing solely under this Lease from and after the date of such transfer.

#### Article 19. DAMAGE OR DESTRUCTION

19.1 If the whole of the Premises or so much thereof as to render the balance unusable by Tenant shall be destroyed by casualty during the term of this Lease, either party may terminate this Lease upon fifteen (15) days' written notice to the other party; provided, however, that all proceeds from insurance and any deductible or self-insured retention amounts are paid over to Landlord, or the Lender, if so required. If either party shall give such notice, then this Lease shall terminate as of the date of such notice with the same force and effect as if such date were the date originally established as the expiration date hereof.

19.2 If the Lease is not terminated pursuant to Section 19.1, and if the proceeds of insurance are made available to Tenant, Tenant shall proceed to restore the Premises to substantially the condition existing prior to such casualty, and this Lease shall continue in full force and effect. Tenant shall not be entitled to any reduction in or abatement of rent by reason of any such damage.

19.3 No damage, compensation or claim shall be payable by Landlord for inconvenience, loss of business or annoyance arising from any repair or restoration of any portion of the Premises.

19.4 With respect to any damage which Landlord is obligated to repair or elects to repair, Tenant, as a material inducement to Landlord entering into this Lease, irrevocably waives and releases its rights under the provisions of Sections 1932(2) and 1933(4) of the California Civil Code.

#### Article 20. EMINENT DOMAIN

20.1 If the whole of the Premises or so much thereof as to render the balance unusable by Tenant shall be taken under power of eminent domain, this Lease shall automatically terminate as of the date of such condemnation, or as of the date possession is taken by the condemning authority, whichever is earlier. No award for any such partial or entire taking shall be apportioned, and Tenant hereby assigns to Landlord any award which may be made in such taking or condemnation, together with any and all rights of Tenant now or hereafter arising in or to the same or any part thereof; provided, however, that nothing contained herein shall be deemed to give Landlord any interest in or to require Tenant to assign to Landlord any award made to Tenant for its relocation expenses, the taking of personal property and fixtures belonging to Tenant, the interruption of or damage to Tenant's business and/or for Tenant's unamortized cost of leasehold improvements.

20.2 In the event of a partial taking which does not result in a termination of this Lease, rent shall be abated in proportion to that part of the Premises made unusable by such partial taking.

20.3 No temporary taking (which shall mean a taking for a period of six (6) months or less), of the Premises and/or of Tenant's rights therein or under this Lease shall terminate this Lease or give Tenant any right to any abatement of rent hereunder. Any award made to Tenant by reason of any such temporary taking shall belong entirely to Tenant and Landlord shall not be entitled to share therein.

#### Article 21. DEFAULTS

The occurrence of any one or more of the following shall constitute a default by Tenant:

(i) The failure by Tenant to pay the Base Rent when due where such failure continues for more than five (5) days after written notice to Tenant; provided,

that such notice shall be in lieu of and not in addition to any notice required under Section 1161 of the California Code of Civil Procedure;

(ii) The abandonment, as a matter of law, of the Premises by Tenant;

(iii) The failure by Tenant to observe or perform any other provision of this Lease to be observed or performed by Tenant, where such failure continues for thirty (30) days after written notice thereof by Landlord to Tenant; provided, however, that if the nature of such default is such that the same cannot reasonably be cured within such thirty (30) day period, Tenant shall not be deemed to be in default if Tenant shall within such period commence such cure and thereafter diligently prosecute the same to completion; and provided further, that such notice shall be in lieu of and not in addition to any notice required under Section 1161 of the California Code of Civil Procedure;

(iv) If Tenant becomes insolvent as defined in the Federal Bankruptcy Code, admits in writing its insolvency or its present or prospective inability to pay its debts as they become due, is unable to or does not pay all or any material portion (in number or dollar amount) of its debts as they become due, permits or suffers a judgment to exist against it which affects Tenant's ability to conduct its business in the ordinary course (unless enforcement thereof is stayed pending appeal), makes an assignment for the benefit of creditors, or any class thereof, for purposes of effecting a moratorium upon or extension or composition of its debts, or commences any bankruptcy, reorganization or insolvency proceeding, or other proceeding under any federal, state or other law for the relief of debtors;

(v) If Tenant fails to obtain the dismissal, within sixty (60) days after the commencement thereof, of any bankruptcy, reorganization or insolvency proceeding, or other proceeding under any federal, state or other law for the relief of debtors, instituted against it by one or more third parties, or fails actively to oppose any such proceeding, or, in any such proceeding, defaults or files an answer admitting the material allegations upon which the proceeding was based or alleges its willingness to have an order for relief entered or its desire to seek liquidation, reorganization or adjustment of any of its debts; or

(vi) If any receiver, trustee or custodian is appointed to take possession of all or any substantial portion of the assets of Tenant, or any committee of Tenant's creditors, or any class thereof, is formed for the purpose of monitoring or investigating the financial affairs of Tenant or enforcing such creditors' rights.

Article 22. REMEDIES

In the event of any such default, then, in addition to any other remedies available to Landlord at law or in equity:

22.1 Landlord shall have the right to terminate this Lease and all rights of Tenant hereunder by giving Tenant written notice of such election to terminate, in which event Landlord may recover from Tenant:

(i) the worth at the time of award of any unpaid rent which has been earned at the time of such termination; plus

(ii) the worth at the time of award of any amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss which Tenant proves could have been reasonably avoided; plus

(iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of the award exceeds the amount of such rental loss which Tenant proves could be reasonably avoided; plus

(iv) any other amount, including attorney's fees and administrative expenses, necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; and

(v) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

For purposes of this Section 22.1, rent, other than the Base Rent, shall be computed on the basis of the average monthly amount thereof accruing during the 24-month period immediately prior to default, except that if it becomes necessary to compute such rental before such 24-month period has occurred, then on the basis of the average monthly amount during such shorter period. As used in subparagraphs (i) and (ii) above, the "worth at the time of award" shall be computed by allowing interest at the rate specified in Section 22.5 hereof. For purposes of subsection (iii) above, the "worth at the time of award" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

22.2 Landlord shall have the right, with or without terminating this Lease, to re-enter the Premises, remove all persons and property from the Premises pursuant to legal proceedings or any notice provided by law, and without terminating this Lease, either recover all rent as it becomes due or relet the Premises or any part

thereof. Landlord shall use reasonable efforts to relet the Premises. The rentals actually received by Landlord from such reletting shall be applied first, to the payment of any indebtedness other than rent due hereunder from Tenant to Landlord; second, to the costs of such reletting; third, to the costs of any alterations and repairs to the Premises; fourth, to the payment of rent due and unpaid hereunder, together with interest thereon and late charges attributable thereto; and the balance, if any, shall be held by Landlord and applied in payment of future rent as the same may become due and payable hereunder. Should any reletting result in the actual payment of rentals at less than the rent payable during that month by Tenant hereunder, Tenant shall pay such deficiency to Landlord immediately upon demand therefor by Landlord.

22.3 No re-entry or taking possession of the Premises by Landlord pursuant to this Article 22 shall be construed as an election to terminate this Lease unless a written notice of such intention be given to Tenant or unless the termination thereof be decreed by a court of competent jurisdiction. Notwithstanding any reletting without termination by Landlord, Landlord may at any time after such reletting elect to terminate this Lease.

22.4 Notwithstanding anything to the contrary contained elsewhere herein, if Tenant shall fail to make payment of any obligation under this Lease within five (5) days after the same becomes due and payable, Tenant acknowledges that Landlord will incur extra administrative expenses (i.e., in addition to expenses incident to receipt of timely payment) in connection with the delinquency in payment. Because the actual damages suffered by Landlord in incurring such extra administrative expenses would be impracticable or extremely difficult to ascertain, it is agreed that three percent (3%) of the amount of the delinquent payment shall be the amount of damages to which Landlord is entitled, upon such default, in compensation for such extra administrative expenses. Therefore, Tenant shall, in such event, without further notice, pay to Landlord as Landlord's sole monetary recovery to cover such extra administrative expenses, liquidated damages in the amount of three percent (3%) of the amount of such delinquent payments. In addition to the foregoing, Tenant acknowledges that Landlord may incur actual damages, in the event of delinquency in payment, in the amount of the actual cost of funds borrowed by Landlord to replace the amount of the delinquent payment hereunder. Tenant agrees to pay such actual damages, to the extent actually incurred by Landlord, to Landlord upon demand. Nothing contained in this Section 22.4 shall be construed as an express or implied agreement by Landlord to forbear the collection of any delinquent payment or be construed as in any way giving Tenant the right, express or implied, to fail to make timely payment hereunder. The right of Landlord to receive payment of such liquidated and actual damages, and receipt thereof, are without prejudice to the right of Landlord to collect such delinquent payments and any other amounts provided to be paid hereunder, or to declare a default hereunder.

22.5 Any amount due from Tenant to Landlord which is not paid when due shall bear interest at the lesser of twelve (12%) per annum or the maximum rate or rates from time to time permitted by applicable federal or state law from the date such payment is due until paid, but the payment of such interest shall not excuse or cure the failure to make such payment when due.

22.6 If Tenant or Landlord shall bring any action for any relief against the other, declaratory or otherwise, arising out of or under this Lease, including any suit by Landlord for the recovery of rent or possession of the Premises, the losing party shall pay the successful party a reasonable sum for attorneys' fees in such suit. Such attorneys' fees shall be deemed to have accrued as of the commencement of such action and shall be paid whether or not such action is prosecuted to judgment.

#### Article 23. SURRENDER OF PREMISES; REMOVAL OF PROPERTY

23.1 The voluntary or other surrender of this Lease by Tenant, or a mutual termination thereof, shall not work a merger, and shall at the option of Landlord, operate as an assignment to it of any or all subleases or subtenancies affecting the Premises.

23.2 Upon the expiration of the term of this Lease, or upon any earlier termination of this Lease, Tenant shall quit and surrender possession of the Premises to Landlord in as good order and condition as the same are now or hereafter may be improved by Landlord or Tenant, ordinary wear and tear and repairs which are Landlord's obligation excepted, and shall, without expense to Landlord, remove or cause to be removed from the Premises all debris and rubbish, all furniture, equipment, business and trade fixtures, free-standing cabinet work, movable partitions and other articles of personal property owned by Tenant and all similar articles of any other persons claiming under Tenant unless Landlord exercises its option to have any subleases or subtenancies assigned to it, and Tenant shall repair all damage to the Premises resulting from such removal.

23.3 Whenever Landlord shall re-enter the Premises pursuant to Article 22 hereof or as otherwise provided in this Lease, any property of Tenant not removed by Tenant upon the expiration of the term of this Lease (or within forty-eight (48) hours after a termination by reason of Tenant's default) shall be considered abandoned and Landlord may remove any or all of such items and dispose of the same in any manner or store the same in a public warehouse or elsewhere for the account and at the expense and risk of Tenant, and if Tenant shall fail to pay the cost of storing any such property after it has been stored for a period of thirty (30) days or more, Landlord may sell any or all of such property at public or private sale, in such manner and at such times and places as Landlord, in its sole discretion, may deem proper, without notice to or demand upon Tenant for the payment of all or any

part of such charges or the removal of any such property. Landlord shall apply the proceeds of such sale first, to the cost and expense of such sale, including, without limitation, attorneys' fees incurred in connection therewith; second, to the payment of the cost of or charges for storing any such property; third, to the payment of any other sums of money which may then or thereafter be due to Landlord from Tenant under any of the terms hereof; and fourth, the balance, if any, to Tenant.

23.4 All fixtures, alterations, additions, improvements and/or appurtenances attached or built into the Premises prior to or during the Term hereof, whether by Landlord at its expense or at the expense of Tenant or both, shall be and remain part of the Premises and shall not be removed by Tenant at the end of the Term hereof unless otherwise expressly provided for in this Lease. Any items installed by Tenant without Landlord's consent, as permitted under Section 9.1, shall be removed by Tenant at the end of the Term, if so required by Landlord, unless Landlord has given a contrary indication in writing to Tenant at the time of the installation of such items. Such fixtures, equipment, alterations, additions, improvements and/or appurtenances shall include, without limitation, floor coverings, drapes, paneling, molding, doors, plumbing systems, electrical systems, lighting systems, silencing equipment, communication systems, all fixtures and outlets for the systems mentioned above and for all telephone, radio, telegraph and television purposes, and any special flooring or ceiling installations.

#### Article 24. WAIVER OF DAMAGES FOR REENTRY

Tenant hereby waives all claims for damages that may be caused by Landlord's re-entering and taking possession of the Premises or removing and storing the property of Tenant as herein provided, and Tenant shall indemnify and hold harmless Landlord therefrom. No such re-entry shall be considered or construed to be a forcible entry.

#### Article 25. HOLDING OVER

25.1 If Tenant holds over after the term hereof, with or without the express or implied consent of Landlord, such tenancy shall be from month to month only, and not a renewal hereof or an extension for any further term, and in such case base rent shall be payable at the rate of one hundred fifty percent (150%) of the rent then payable pursuant to Article 3 hereof, and such month to month tenancy shall be subject to every other term, covenant and agreement contained herein. Nothing contained in this Article 25 shall be construed as a consent by Landlord to any holding over by Tenant and Landlord expressly reserves the right to require Tenant to surrender possession of the Premises to Landlord as provided in Article 23 hereof upon the expiration of the term of this Lease or other termination of this Lease.

25.2 Tenant acknowledges that Landlord will use reasonable efforts to re-let the Premises on reasonable terms and conditions as soon as practicable following the expiration or sooner termination of the term of this Lease. In that context, Landlord may well enter into agreements with third parties providing for the occupancy of the Premises, or a portion thereof, upon such expiration or sooner termination or as soon thereafter as Landlord has estimated that it will be able to refurbish the Premises, and that the failure by Tenant to surrender possession of the Premises upon such expiration or sooner termination may render Landlord unable to fulfill its obligations to such third party. Accordingly, if Tenant fails to surrender possession of the Premises upon such expiration or sooner termination, Tenant shall indemnify and hold Landlord harmless from and against any and all costs, losses, claims or liabilities, including, without limitation, attorneys' fees, arising under any claim made by any such third party based, in whole or in part, on Landlord's failure to deliver possession of the Premises, or any part thereof, to such third party.

#### Article 26. SUBORDINATION

26.1 This Lease is and at all times shall be subject and subordinate to any ground or underlying leases, mortgages, trust deeds or like encumbrances, which may now or hereafter affect the real property of which the Premises are a part, and to all renewals, modifications, consolidations, replacements and extensions of any such lease, mortgage, trust deed or like encumbrance. This clause shall be self-operative and no further instrument of subordination shall be required by any ground or underlying lessor or by any mortgagee or beneficiary, affecting any lease or the real property of which the Premises are a part. In confirmation of such subordination, Tenant shall execute promptly any certificate that Landlord may request. The subordination of this Lease to any such lease, mortgage, trust deed or like encumbrance shall, however, be subject to the following:

(i) In the event of the sale of the Premises upon foreclosure or upon the exercise of a power of sale, or by transfer in lieu of foreclosure or such exercise, Tenant will upon written request attorn to the purchaser and recognize the purchaser, or transferee, as the Landlord under this Lease.

(ii) Notwithstanding such subordination, Tenant's right to quiet possession of the Premises and all other Tenant's rights under this Lease, shall not be disturbed so long as Tenant shall pay the rent and observe and perform all of the provisions of this Lease to be observed and performed by Tenant unless this Lease is terminated pursuant to specific provisions relating thereto contained herein.

26.2 Notwithstanding anything to the contrary herein, Landlord agrees, at the request of Tenant, to use its reasonable efforts to obtain from Security Pacific National Bank a recognition and non-disturbance agreement in form and substance

reasonably satisfactory to Tenant, and Landlord shall cooperate with Tenant as may be necessary to secure such agreement.

#### Article 27. ESTOPPEL CERTIFICATES

Tenant shall at any time and from time to time upon not less than twenty (20) days' prior notice by Landlord, execute, acknowledge and deliver to Landlord a statement in writing certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the modifications), stating the dates to which the basic rent, additional rent and other charges have been paid in advance, if any, stating whether or not to the best knowledge of Tenant, Landlord is in default in the performance of any covenant, agreement or condition contained in this Lease and, if so, specifying each such default of which Tenant may have knowledge, and responding to such other questions or statements of fact as Landlord or any ground or underlying lessor or any mortgagee or beneficiary shall reasonably request. Tenant's failure to deliver such statement within such time shall constitute an acknowledgment by Tenant that this Lease is unmodified and in full force and effect except as may be represented to the contrary by Landlord, no more than one monthly installment of Base Rent has been paid in advance, Landlord is not in default in the performance of any covenant, agreement or condition contained in this Lease and the other matters set forth in such request, if any, are true and correct. Any such statement delivered pursuant to this Article 27 may be relied upon by any prospective purchaser of the fee of the Premises or any mortgagee or other like encumbrancer thereof or any assignee of any such encumbrancer upon the Premises. Landlord shall reimburse Tenant for Tenant's reasonable costs, including, without limitation, its attorneys' fees, incurred in conjunction with the processing and documentation of any estoppel certificate.

#### Article 28. RIGHT OF LANDLORD TO PERFORM

If Tenant shall fail to pay any sum of money, other than rent, required to be paid by it hereunder or shall fail to perform any other act on its part to be performed hereunder, and such failure shall continue beyond any applicable grace period set forth in Article 21 or 22 hereof, Landlord may, but shall not be obligated so to do, and without waiving or releasing Tenant from any obligation of Tenant, make any such payment or perform any such other act. Tenant shall, promptly and upon demand therefor by Landlord, reimburse Landlord for all sums so paid by Landlord and all necessary incidental costs, together with interest thereon at the rate of twelve (12%) percent from the date of such payment by Landlord, and Landlord shall have the same rights and remedies in the event of the failure by Tenant to pay such amounts as Landlord would have in the event of a default by Tenant in the payment of rent.

#### Article 28A TENANT'S RIGHT TO PERFORM

If Landlord shall at any time default in the performance of any obligation of Landlord (a) under this Lease with respect to any matter under Article 1A hereof, or (b) under the SPA, with respect to the Excluded Liabilities with respect to the Environmental Liabilities and the VOC Remediation Program, as they apply to the adjoining premises at 1525 Comstock Road, leased by Landlord to Tenant under the Lease of even date herewith, then Tenant shall have the right (after Landlord's failure to cure such default within 60 days after written notice from Tenant to Landlord) to perform such obligation, notwithstanding the fact that no specific provision for such substituted performance by Tenant is made in this Lease with respect to such default ("Tenant's Self-Help Remedy"). Any sums paid by Tenant (together with interest at the rate of twelve (12%) percent from the date of payment, and all necessary incidental costs and expenses in connection with the performance of any such obligation by Tenant, shall be payable to Tenant immediately on demand, and if not so paid may be offset by Tenant from the next succeeding installment(s) of Base Rent due under this Lease, until Tenant shall have recouped such amount in full, with interest as provided herein; provided, that in no event shall Tenant set off against the Base Rent hereunder an amount in excess of \$2,000,000.00, in the aggregate, during the Term of this Lease. Tenant may exercise the foregoing rights without waiving any other of its rights or releasing Landlord from any of its obligations under this Lease. In addition to the other remedies provided in this Lease, Tenant shall to the full extent provided by law, be entitled to the restraint by injunction of the violation or attempted or threatened violation of any of the covenants, conditions or provisions of this Lease by Landlord, or to a decree compelling specific performance by Landlord of any such covenants conditions or provisions. Nothing herein shall be construed to permit Tenant to obtain a recovery with respect to any matter as to which Tenant has previously obtained a recovery by other means. The continuance of possession by Tenant following any such default by Landlord shall not be deemed a waiver by Tenant of any rights under this Lease; specifically, Tenant reserves the right to terminate this Lease by notice to Landlord delivered at any time when Tenant is exercising Tenant's Self-Help Remedy hereunder.

#### Article 29. NOTICES

All notices and consents which Landlord or Tenant may be required, or may desire, to serve or confer on the other must be in writing and may be served, as an alternative to personal service, by mailing the same by either (a) registered or certified mail, postage prepaid, return receipt requested, or (b) Federal Express or similar overnight courier delivery service, addressed as follows:

If to Landlord: Bourns, Inc.  
1200 Columbia Avenue  
Riverside, California 92507  
Attn: Larry L. White,  
Executive Vice President

With a copy to: Bourns, Inc.  
1200 Columbia Avenue  
Riverside, California 92507  
Attn: William Becker, Esq.,  
Chief Legal Counsel

Submission of this Lease by either party shall not bind either party in any manner and no lease or other obligation on the part of either party shall arise, until this Lease is executed and delivered by both parties.

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

Landlord:  
  
Bourns, Inc.

Tenant:  
  
Precision Monolithics, Inc.

By: Larry L. White  
-----  
Title: Exec. Vice President

By: Alan King  
-----  
Title: President

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

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

Address:  
-----  
-----  
-----

Address:  
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SCHEDULE A

Description of Premises

All that certain real property in the City of Santa Clara, County of Santa Clara, State of California, described as follows:

All of Parcel "A" as shown on that certain map entitled, "Parcel Map Lands of Precision Monolithics," which map was filed for record in the office of the recorder of the County of Santa Clara, State of California on June 10, 1975 in Book 357 of Maps, Page 4.

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE is made as of May 1, 1996, by and between BOURNS, INC., a California ("LANDLORD"), and ANALOG DEVICES, INC., a Massachusetts corporation ("TENANT"), successor by merger to Precision Monolithics, Inc.

WITNESSETH:

WHEREAS, Landlord and Tenant entered into a certain Lease dated August 8, 1990 (the "LEASE"), whereby Tenant leased from Landlord approximately 72,800 rentable square feet of space in two buildings known as 1500 Space Park Drive, Santa Clara, California, as such space is more particularly described in the Lease (the "PREMISES"); and

WHEREAS, Landlord and Tenant desire to extend the term of the Lease, to modify the rental to be paid for the Premises by Tenant pursuant to the Lease and to make certain other modifications to the Lease, all as set forth herein.

NOW, THEREFORE, in consideration of the sum of TEN AND NO/100 DOLLARS (\$10.00) in hand paid to Landlord by Tenant and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by Landlord, and in further consideration of the mutual agreements by and between the parties hereto, Landlord and Tenant agree as follows:

I. Unless otherwise defined herein, all capitalized terms used in this First Amendment to Lease shall have the meaning given to them in the Lease.

I. Subject to the terms and provisions of the Lease, as modified hereby, Landlord and Tenant hereby extend the Initial Term of the Lease for a period of seven (7) years, commencing August 8, 1995 and expiring August 7, 2002. Tenant shall continue to have the option to extend the term of the Lease for three (3) successive terms of five (5) years each pursuant to Article 2.2 of the Lease, the first of such option periods to commence, if so elected by Tenant, on August 8, 2002.

I. Notwithstanding the provisions of Article 3.1 of the Lease, Base Rent during the portion of the Initial Term commencing August 8, 1995 and expiring August 7, 2002 shall be in the amounts set forth in EXHIBIT A attached hereto and shall be payable in accordance with the terms of the Lease. Tenant previously has paid to Landlord Base Rent for the Premises for the period August 8, 1995 through May 31, 1996 in the amount of \$73,482.09 per month. Such payments exceed by \$15,242.09 per month the Base Rent payable by Tenant for such period in accordance with the Lease, as amended hereby. Accordingly, Tenant shall receive a credit in the amount of \$152,420.85 against Base Rent, which equals all Base Rent payable for the Premises for June and July 1996 and a credit of \$35,940.85 towards Base Rent payable for August 1996.

I. Article 3.2 of the Lease is deleted in its entirety and the following is inserted in lieu thereof:

Base Rent for each Option Term shall be the fair rental value of the Premises at the inception of such Option Term based on the terms and conditions of this Lease. The fair rental value for each Option Term shall be determined by the following process: At least six (6) months prior to the commencement of an Option Term, Tenant and Landlord each shall obtain an appraisal of the fair rental value of the Premises, prepared by an MAI appraiser familiar with commercial rental rates for properties similar to the Premises in the Santa Clara, California area. Such appraisal shall determine the fair rental value of the Premises based on the terms and conditions of this Lease without, however, taking into account any improvements or alterations to the Premises constructed at the expense, exclusive of insurance proceeds, of Tenant. Each party shall notify the other of the fair rental value of the Premises, as determined by the appraiser retained by such party. If at least five (5) months prior to the commencement of an Option Term, the parties have not agreed in writing on a Base Rent amount, the two appraisers retained by Landlord and Tenant shall select a third appraiser (the "INDEPENDENT APPRAISER") to conduct an independent MAI appraisal, to be conducted by Coldwell Banker, or mutually agreeable equivalent, to determine the fair rental value of the Premises. The Base Rent for such Option Term shall be the average of the two closest appraisals of the fair rental value, as determined by the three appraisals, provided that, if one determination of the fair rental value equals the average of the other two determinations, such average shall be the Base Rent during such Option Term. For example, assume Tenant's appraiser believes that the fair rental value of the Premises is \$8.50 per rentable square foot and Landlord's appraiser believes that the fair rental value is \$10.00 per rentable square foot. If the Independent Appraiser indicates that the fair rental value of the Premises equals (i) \$8.00, the Base Rent shall be \$8.25, (ii) \$9.00, the Base Rent shall be \$8.75, (iii) \$9.25, the Base Rent shall be \$9.25, (iv) \$9.50, the Base Rent shall be \$9.75, and (v) \$10.50, the Base Rent shall be \$10.25. Neither Landlord's appraiser nor Tenant's appraiser shall disclose to the Independent Appraiser their estimates of the fair rental value. Tenant and Landlord each shall pay the fees and expenses of the appraiser they retain to conduct an appraisal of the fair rental value of the Premises. The fees and reimbursable expenses of the Independent Appraiser shall be shared equally by Landlord and Tenant. If for any reason the Base Rent has not been ascertained by the commencement of the Option Term, Tenant shall pay on account of Base Rent an amount equal to the average of Landlord's appraiser's and Tenant's appraiser's determinations of the fair rental value of the Premises, until such time as the actual Base Rent shall have been established in accordance with the terms of this paragraph.

I. This First Amendment may be executed in multiple counterpart copies, each of which together shall constitute a single instrument, and exchange of counterparts by facsimile transmission shall be equivalent to exchange of original counterparts.

I. As expressly modified hereby, the Lease continues in full force and effect.

IN WITNESS WHEREOF, the undersigned have executed this First Amendment to Lease, as of the date first written above.

BOURNS, INC.

By:

-----  
W.P. McKenna  
Vice President

ANALOG DEVICES, INC.

By:-----

Name:

Title:

EXHIBIT A

1500 Space Park Drive  
Santa Clara, California

LEASE YEAR	BASE RENT PER ANNUM
August 8, 1995 through August 7, 1997	\$698,880
August 8, 1997 through August 7, 1999	\$742,560
August 8, 1999 through August 7, 2001	\$786,240
August 8, 2001 through August 7, 2002	\$829,920

DESCRIPTION OF CONSULTING AGREEMENT WITH  
JOHN L. DOYLE

Mr. Doyle provides certain consulting services for the Registrant. He is paid for such services, a fee of \$3,250 per day plus expenses.

LEASE

FERRARI BROTHERS,  
A CALIFORNIA GENERAL PARTNERSHIP

LANDLORD

ANALOG DEVICES, INC.,  
A MASSACHUSETTS CORPORATION

TENANT

DATED: JUNE 16, 1995

ADDRESS OF PREMISES:

610 WEDDELL DRIVE  
SUNNYVALE, CALIFORNIA 94086  
FABRICATION FACILITY

LEASE SUMMARY

Parties:

Landlord: Ferrari Brothers, a California general partnership

Tenant: Analog Devices, Inc., a Massachusetts corporation

Premises: Approximately 27,379 square feet of space as shown in EXHIBIT A.

Building: 610 Weddell Drive, Sunnyvale, California

Scheduled Commencement Date: June 16 , 1995

Expiration Date: March 31, 2000

Base Rent: Thirty Five Thousand Dollars (\$35,000) per month

Security Deposit: A certificate of deposit as described in Paragraph 4

Tenant's Share of Building: 43.4%

Option(s) to Extend: Three (3) five-year options

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EXHIBITS

- Exhibit "A" -- Premises
- Exhibit "B" -- Property Description
- Exhibit "C" -- Plans and Specifications for Tenant Improvements
- Exhibit "D" -- Plans and Specifications for Additional Improvements
- Exhibit "E" -- Nondisturbance Agreement
- Exhibit "F" -- Memorandum of Lease

LEASE

This Lease is made and entered into as of June 1, 1995, by and between Ferrari Brothers, a California general partnership ("Landlord"), whose address is 1265 Montecito Avenue, Suite 200, Mountain View, California 94043, and Analog Devices, Inc., a Massachusetts corporation ("Tenant"), whose address is 3 Technology Way, Norwood, Massachusetts 02062-9106, Attn: Mr. William Wise.

Landlord and Tenant agree to the terms, covenants and conditions of this Lease, as follows:

1. PREMISES. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord for the term, at the rental, and upon all of the other terms, covenants and conditions set forth herein, those certain premises (the "Premises") as shown on EXHIBIT "A" attached hereto consisting of approximately 27,379 square feet of space within that certain building (the "Building") situated in the City of Sunnyvale, County of Santa Clara, State of California, commonly known as 610 Weddell Drive and more particularly described in EXHIBIT "B" attached hereto. Tenant is entering into this Lease in conjunction with its acquisition of certain fabrication facility assets situated on the Premises from Performance Semiconductor Corporation ("PSC"), the prior tenant of the Premises.

Tenant shall also have the exclusive right to use the loading docks (if any) contiguous to the Premises and located within the Outside Areas, and the nonexclusive right to use all other portions of the Outside Areas in common with other tenants from time to time occupying space within the Building together with their respective agents, contractors, and other invitees. Landlord reserves the right to grant such easements burdening the Outside Areas as Landlord in its reasonable discretion deems appropriate provided the same do not unreasonably interfere with Tenant's ability to use the Outside Areas. Tenant at its sole expense shall maintain the water monitoring wells located within the Outside Areas as shown on EXHIBIT "B."

The parcel of land on which the Building is situated, together with the Building and all other improvements now or hereafter located thereon, is hereafter called the "Project."

The portion of the parcel of land described above not covered by the Building is hereafter called the "Outside Areas."

"Tenant's Share" as used in this Lease means that percentage of the total number of square feet of leasable space in the Building which is contained in the Premises, which the parties agree is Forty-Three and Four Tenths percent (43.4%).

2. TERM. The term of this Lease shall commence on June 16, 1995 (the "Commencement Date"), and end on March 31, 2000 (the "Expiration Date"), unless sooner terminated pursuant to the provisions hereof.

3. Rent.

3.1 INITIAL BASE RENT. Commencing on the Commencement Date, Tenant shall pay to Landlord for each calendar month of the term of this Lease, monthly base rent (hereafter called "Base Rent"), in the amount of Thirty Five Thousand Dollars (\$35,000). Base Rent shall be subject to adjustment from time to time as set forth in Paragraph 3.2.

3.2 RENTAL ADJUSTMENT. The monthly Base Rent payable hereunder shall be adjusted as of April 1, 1996 and as of April 1 of each successive year (each such date herein called a "Rental Adjustment Date") during the term of this Lease to reflect any changes in the cost of living. The adjustment or adjustments, if any, shall be calculated upon the basis of the United States Department of Labor, Bureau of Labor Statistics CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS, FOR SAN FRANCISCO-OAKLAND-SAN JOSE (1982-84=100), hereafter referred to as the "Index". The Index for said subgroup most recently published as of April 1, 1995 shall be considered the "base". On the first Rental Adjustment Date, the monthly Base Rent shall be adjusted by the percentage increase, if any, in the Index as of the Rental Adjustment Date, over the base. On each subsequent Rental Adjustment Date, the monthly Base Rent (as previously adjusted) shall be further adjusted by the percentage increase, if any, in the Index as of the Rental Adjustment Date over the Index as of the preceding Rental Adjustment Date. When the Base Rent is determined upon the Rental Adjustment Date, Landlord shall give Tenant written notice to that effect indicating how the new Base Rent figure was computed in accordance with this paragraph. If the Index does not exist on any Rental Adjustment Date in the same format as referred to in this paragraph, Landlord shall substitute in lieu thereof an index reasonably comparable to the Index referred to above which is then published by the Bureau of Labor Statistics, or by a successor or similar governmental agency, or, if no governmental agency then publishes an index, Landlord shall substitute therefor any commonly accepted index designed to reflect changes in the cost of living which is published by a reputable private organization.

3.3 MANNER OF PAYMENT. Tenant shall pay to Landlord the rent calculated as set forth above without deduction, offset, or abatement (except as expressly otherwise provided in Paragraphs 15.5, 16.1, and 16.5 below), and without prior notice or demand, in advance on the first day of each calendar month of the term of this Lease. Rent shall be payable in lawful money of the United States to Landlord at 1265 Montecito Avenue, Suite 200, Mountain View, California 94043 or at such other place as Landlord may from time to time designate in writing. Tenant's obligation to pay rent for any partial month shall be prorated on the basis of a thirty (30) day month.

3.4 LATE PAYMENT CHARGE. If any installment of rent or any other sum due from Tenant is not received by Landlord within ten (10) days after the due date, Tenant shall pay to Landlord an additional sum of Seven Hundred Dollars (\$700.00). Such sum shall represent liquidated damages for, and a reasonable estimate of, Landlord's administrative costs of collection, the exact amount of which would be extremely difficult or impractical to fix. Landlord's acceptance of such late charge shall not excuse any default by Tenant hereunder, and shall not preclude Landlord from pursuing any other rights and remedies it may have relating to such default.

4. SECURITY DEPOSIT. Prior to the Commencement Date, Tenant shall establish a Certificate of Deposit in the name of Analog Devices, Inc. in favor of Ferrari Brothers, a California general partnership, in the sum of Nineteen Thousand Three Hundred Sixty Two Dollars and Twenty Two Cents (\$19,362.22). It is specifically agreed that Landlord shall have access to the funds represented by the Certificate of Deposit only for the purposes and under the conditions set forth herein. The Certificate of Deposit shall be renewable on an annual basis and shall be renewed by Tenant at least thirty (30) days prior to the scheduled maturity thereof each year. The Certificate of Deposit, as the same may be renewed from time-to-time, shall remain in effect at least until the sooner of the expiration of this Lease or thirty (30) days after the sooner termination thereof, and in all events at least until ten (10) days after Tenant has vacated the Premises. If Tenant fails to pay rent or any other sum due hereunder, or otherwise defaults with respect to any provision of this Lease, Landlord may draw sums from the Certificate of Deposit for the payment of any rent or other sum in default, or to compensate Landlord for the payment of any other sum, including attorneys' fees, which Landlord spends by reason of Tenant's default. Landlord may draw upon the Certificate of Deposit without prejudice to any other remedy Landlord may have by reason of Tenant's default or breach. If Landlord so draws all or a portion of the Certificate of Deposit, Tenant shall, within twenty (20) days after demand in writing therefor, restore the amount of the Certificate of Deposit to the original amount thereof.

5. Taxes.

5.1 TENANT'S PERSONAL PROPERTY. Tenant shall pay directly to the charging authority prior to delinquency all taxes assessed against and levied upon Tenant's leasehold improvements, trade fixtures, furnishings, equipment and all other personal property and merchandise of Tenant situated in or about the Premises.

5.2 REAL PROPERTY TAXES. Tenant's Share of all Real Property Taxes (as hereafter defined) levied with respect to the Project shall be deemed Operating Expenses as described in Paragraph 9 below.

The term "Real Property Taxes" as used herein shall mean (i) all taxes, assessments, levies, and other charges of any kind or nature whatsoever, general and special (including all installments of principal and interest required to pay for any general or special assessments for public improvements, services, or benefits and any increases resulting from reassessments caused by any change in ownership, new construction, or change in valuation), now or hereafter imposed by any governmental or quasi-governmental authority or special district having the direct or indirect power to tax or levy assessments, which are levied or assessed against or with respect to (a) the value, occupancy or use of the Project (as now constructed or as may at any time hereinafter be constructed, altered, or otherwise changed), (b) the fixtures, equipment, and other real or personal property of Landlord that are an integral part of the Project, (c) the gross receipts, income, and rentals from the Project, or (d) the use of the Outside Areas, public utilities, or energy within the Project; (ii) all charges, levies or fees imposed by reason of environmental regulation or other governmental control of the Project; (iii) all new exercise, transaction, sales, privilege or other taxes now or hereafter imposed upon Landlord as a result of this Lease; and (iv) all reasonable costs and fees (including attorneys' fees) incurred by Landlord in contesting any Real Property Taxes pertaining to the Project and in negotiating with public authorities as to any Real Property Taxes pertaining to the Project. If at any time during the lease term the taxation or assessment of the Project prevailing as of the Commencement Date shall be altered so that in lieu of or in addition to any Real Property Taxes described above there shall be levied, assessed or imposed (whether by reason of a change in the method of taxation or assessment, creation of a new tax or charge, or any other cause) an alternate, substitute, or additional tax or charge (i) on the value, use or occupancy of the Project, (ii) on or measured by the gross receipts, income, or rentals from the Project, or on Landlord's business of leasing the Project, or (iii) computed in any manner with respect to the operation of the Project, then any such tax or charge, however designated, shall be included within the meaning of the term "Real Property Taxes" for purposes of the Lease. If any Real Property Tax

is based upon property or rents unrelated to the Project, then only that part of such Real Property Tax that is fairly allocable to the Project shall be included within the meaning of the term "Real Property Taxes." Notwithstanding the foregoing, the term "Real Property Taxes" shall not include estate, inheritance, transfer, gift or franchise taxes of Landlord or the federal or state net income tax imposed on Landlord's income from all sources.

Notwithstanding the foregoing, Tenant shall have no obligation to pay any increase in Real Property Taxes due to a reassessment of the value of the Premises under Article XIII A of the California Constitution to the extent such reassessment results from new construction on land adjacent to the Premises owned by Landlord and included within the tax parcel of which the Premises are a part. Nothing in this paragraph shall be construed to relieve Tenant of the obligation of paying its share of increases in taxes under said Article XIII A or any other provision of law in accordance with the provisions of this Lease, except as specifically set forth above in this paragraph.

Real Property Taxes shall be prorated on the basis of a 365-day year to account for any fractional portion of a fiscal tax year included in the Lease term at the commencement or expiration of the term.

If any general or special assessment is levied and assessed against the Premises, Landlord may elect either to pay the assessment in full or to allow the assessment to go to bond. If Landlord pays the assessment in full, Operating Expenses shall include a sum equal to that which would have been payable (as both principal and interest) had Landlord allowed the assessment to go to bond.

Tenant shall have the right, upon written request to Landlord, to inspect each and every original tax bill relating to taxes assessed during the Lease term against the Premises or the tax parcel of which the Premises are a part. Landlord shall make such original tax bill available for Tenant's inspection at Landlord's headquarters or at such other reasonable place as Landlord may determine, during reasonable business hours.

Tenant at its cost shall have the right, at any time, to contest any Real Property Taxes that are to be paid by Tenant, provided that Tenant shall first pay any Real Property Taxes it desires to contest. Landlord shall not be required to join in any contest brought by Tenant unless the provisions of any law require that the contest be brought by or in the name of Landlord or any owner of the Premises. In that case Landlord shall join in the contest or permit it to be brought in Landlord's

name as long as Landlord is not required to bear any cost. Tenant, on final determination of the contest, shall immediately pay or discharge any decision or judgement rendered, together with all costs, charges, interest, and penalties incidental to the decision or judgement.

Notwithstanding anything to the contrary, Tenant shall only be required to pay charges by the Environmental Protection Agency or other governmental agencies relating to cleaning up contamination on, under, or about the Premises to the extent such contamination results from Tenant's use of the Premises or is caused by Tenant to exist in, on, or about the Premises, and such expense shall be limited to costs incurred to perform such investigations and clean-up as may be required by law. It is expressly understood that, except as otherwise provided in Paragraph 7 below, Tenant shall have no liability in connection with any contamination of the Premises occurring before Tenant's entry into the Premises, or occurring after expiration or sooner termination of the Lease term and Tenant's vacating of the Premises, except to the extent Tenant causes such contamination.

6. Use.

6.1 PERMITTED USES. The Premises shall be used and occupied only for the following purposes: office, research, development, manufacturing and sale of electronic components, and for no other use or purpose without first obtaining Landlord's written consent which shall not be unreasonably withheld.

6.2 COMPLIANCE WITH LAW. Tenant shall at its sole expense at all times during the Lease term comply with all laws, statutes, ordinances, regulations, codes or other rules and regulations of lawful governmental authority (collectively "Regulations") relating to the Premises. Notwithstanding anything to the contrary in this Lease, Landlord shall perform and pay for all modifications to the structure of the Building (i.e., the exterior walls, roof structure and building foundation), required in order to comply with any such Regulations, unless the need for compliance is (a) caused by Tenant's particular use of the Premises (rather than merely being a requirement for all buildings within the jurisdiction of such governmental authority), or (b) caused by any new construction performed by or on behalf of Tenant in, on or about the Premises (except to the extent that during the process of such new construction violations of codes in effect at the time Landlord constructed the Building are found, in which case Landlord shall be solely liable for the cost of curing such violations). Tenant shall perform and pay for any and all improvements or other modifications required to be made with respect to any improvements made to the Premises by Tenant, and all other portions of the Premises except as provided in the

second sentence of this paragraph. Without limiting the generality of the foregoing, Tenant specifically shall perform and pay at its sole cost for any and all work required to bring the Premises into compliance with the Americans with Disabilities Act and the Toxic Gas Ordinance.

7. Hazardous Materials.

As used herein, "Hazardous Materials" means any hazardous, toxic, environmentally damaging or radioactive materials, substances or wastes, including, but not limited to, those materials, substances or wastes: (1) defined or listed as hazardous or extremely hazardous materials or wastes pursuant to Title 22, Division 4, Chapter 30, of the California Code of Regulations, as may be amended; (2) defined or listed as hazardous substances pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. \_ 9601, et seq., as may be amended; (3) defined or listed as hazardous or acutely hazardous wastes pursuant to the Resource Conservation and Recovery Act, 42 U.S.C. \_ 6901, et seq., as may be amended; and/or (4) which consist in whole or part of petroleum, petroleum fractions, petroleum products or petroleum distillates.

Tenant shall not cause or permit to be discharged from or about the Premises, the Building, or the Project any Hazardous Materials. Without limiting the foregoing, Tenant shall not cause or permit to be discharged any Hazardous Materials into the groundwater or soils underlying or adjacent to the Premises, Building or Project. Prior to its occupancy of the Premises Tenant shall provide Landlord with a copy of the following items relating to Tenant's bringing, using, or storing any Hazardous Materials on the Premises: (i) a copy of Tenant's Material Safety Data Sheet in the same form submitted to OSHA, (ii) a written detailed description of where on the Premises Tenant intends to store Hazardous Materials and the manner (volume and type of containers for each Hazardous Material, and method of securing the same against movement) in which such Hazardous Materials will be stored, and (iii) a general description of the processes for which the Hazardous Materials will be used. Tenant shall deliver to Landlord in writing a detailed description of any updates to or other modifications of the foregoing as and when they occur.

Tenant, at its sole expense shall comply with all applicable governmental rules, regulations, codes, ordinances, statutes, directives and other requirements (collectively, "Laws") respecting Hazardous Materials in connection with Tenant's activities and the activities of its agents, employees, contractors and invitees on or about the Premises, the Building or the Project. Tenant, at its sole cost, shall perform all investigations, clean-up and other response actions which may be required by any

governmental authority in, on, or about the Project, to the extent the same relate to Hazardous Materials the existence of which in, on or about the Project was caused by Tenant or its agents, contractors, employees, or invitees. For purposes of this Paragraph 7 and all other provisions of this Lease, any Hazardous Materials existing in, on or about the Project which are of the same type, or which are derivative combinations or products thereof, of any Hazardous Materials or other chemicals or substances which have at any time been used, stored, generated, or released in, at, about or from the Premises shall be deemed to have been released and caused to exist in, on or about the Project by Tenant unless Tenant demonstrates by a preponderance of the evidence that the existence of such Hazardous Materials was not caused by Tenant. For purposes of this Paragraph 7, Hazardous Materials located in, on or about the Premises, Building, or Project shall include without limitation Hazardous Materials situated in the groundwater or soil.

Tenant shall indemnify, protect, defend and hold harmless Landlord from and against all costs (including, but not limited to, environmental response costs and Landlord's attorneys' and experts' fees and costs), expenses, claims, judgments, losses, demands, liabilities, causes of action, governmental directives, proceedings or hearings, relating to the use, handling, generation, storage, transportation, release or disposal of Hazardous Materials by Tenant, or its employees, agents, invitees or contractors on, in, beneath, about or from, the Premises, the Building or the Project, and/or relating to the breach of any of Tenant's obligations under this Paragraph 7. Tenant's obligation to defend shall mean with legal counsel approved by Landlord, which approval shall not unreasonably be withheld or delayed. Without limitation of the foregoing, in the event Tenant, its employees, agents, invitees or contractors, causes or has caused the presence of Hazardous Materials in, on, or about the Premises, or in the groundwater or land underlying the Premises or the Building, or, in, on, or about any groundwater or land adjacent to, on, in the vicinity of the Premises, Tenant shall indemnify, protect, defend, and hold harmless Landlord from and against the cost of environmental consultants, attorneys, and other consultants as Landlord determines are appropriate to assist Landlord in (1) investigating the source, extent, and composition of such Hazardous Materials, (2) cleaning up or otherwise remediating the same, (3) dealing with any potential or actual liability of Landlord and/or Tenant respecting such Hazardous Materials, and (4) otherwise dealing with such Hazardous Materials. Tenant shall reimburse Landlord for (i) losses in or reductions to rental income resulting from Tenant's use, handling, generation, storage, transportation, release or disposal of Hazardous Materials; (ii) all costs of clean-up or other alterations to the Premises, the Building or the Project necessitated by Tenant's use, handling, generation, storage, transportation, release or disposal of Hazardous Materials; and (iii) any diminution in the fair market value of the Project caused by

Tenant's use, handling, generation, storage, transportation, release or disposal of Hazardous Materials.

Tenant shall notify Landlord in writing, immediately upon becoming aware of: (1) any environmental investigation, clean-up or other environmental response action requested, demanded, instituted or to be instituted by any person, including but not limited to a governmental entity, relating to any release or migration of Hazardous Materials on, in, beneath, to or adjacent to the Premises, the Building or the Project; (2) any environmental investigation, cleanup or other environmental response action requested, demanded, instituted or to be instituted by any person, including a governmental entity, relating to the use, handling, generation, storage, transportation, release or disposal of Hazardous Materials by Tenant, its employees, agents, invitees or contractors on, in, beneath, about or from the Premises, the Building or the Project; (3) any claim or demand made or threatened by any person, including but not limited to a governmental entity, against the Landlord or Tenant, the Premises, the Building or the Project relating to damages, contribution, cost recovery, compensation, loss or injury relating to or claimed to result from any Hazardous Materials that have come to be located on or about the Premises, the Building or the Project; or (4) any data, workplans, proposals or reports submitted to any governmental entity arising out of or in connection with any Hazardous Materials on or about the Premises, the Building or the Project, including but not limited to any complaints, notices, warnings or asserted violations in connection therewith.

Landlord shall have the right, but not the obligation, in its sole discretion, to conduct any inspections of the Premises, the Building and the Project regarding Hazardous Materials on, in, beneath or about same. Landlord shall give Tenant forty-eight (48) hours advance notice of any such inspection, except in the event of an emergency situation. When conducting any such inspections, Landlord shall avoid unreasonably disrupting Tenant's activities. Tenant shall provide Landlord with reasonable cooperation to facilitate any such inspection by Landlord, its agents or representatives.

Under no circumstances shall Tenant install, temporarily or permanently, any underground or below-floor tanks relating to the use, storage or disposal of Hazardous Materials.

Prior to the expiration or termination of this Lease, Tenant shall decontaminate, remove or clean any equipment, improvements or facilities used by Tenant at the Premises, Building or Project in connection with Hazardous Materials, in full compliance with applicable Laws.

To the extent any of the provisions of this Lease conflict with the provisions of Paragraph 7, the provisions of Paragraph 7 shall be controlling. The obligations of Tenant under this Paragraph 7 shall survive the expiration of the Lease term.

8. RESTRICTIONS ON USE. Tenant shall not use or permit the use of the Premises in any manner that will tend to create waste on the Premises or constitute a nuisance to any other occupant or user of the Building or any neighboring building. Tenant shall not place any harmful liquids or other substances in the drainage system of the Building or use any apparatus, machinery or other equipment in or about the Premises that may cause substantial noise or vibration or overload existing electrical systems, or otherwise place any unusual loads upon the floors, walls, or ceilings of the Premises which may overload the Premises or jeopardize the structural integrity of the Building or any part thereof. Tenant shall not make any penetrations of the roof or exterior of the Building without the prior written approval of Landlord. No materials or articles of any nature shall be stored upon any portion of the Outside Areas unless located within an enclosure approved by Landlord.

9. Operating Expenses.

9.1 OPERATING EXPENSES. Tenant shall pay to Landlord as additional rent hereunder one-half (1/2) of Tenant's Share of the total amount of Operating Expenses (as defined below) as may be paid or incurred by Landlord during the term of this Lease.

The term "Operating Expenses" shall mean all costs and disbursements which Landlord shall pay or become obligated to pay in connection with maintaining, repairing, managing and operating the Project, including, without limitation (i) Real Property Taxes, (ii) the insurance premiums for insurance which Landlord is required or entitled to maintain related to the Project as described below in Paragraph 14, (iii) the maintenance, repair and operation of the Project, including but not limited to, all labor, materials, supplies and services, and the cost of all maintenance contracts, used or consumed in performing Landlord's maintenance and repair obligations hereunder, (iv) landscaping costs related to the Project, (v) wages, salaries and benefits of all employees or consultants engaged in the operation, maintenance and security of the Project, including taxes, insurance and benefits relating thereto, (vi) any replacements or capital improvements to the Project, except as otherwise specified in Paragraph 6.2 above or in Paragraph 10 below, (vii) utility services which are not separately metered to the premises of the tenants of the Building, and (viii) janitorial services. Additionally, Tenant's Share of Operating

Expenses shall include a management fee for Landlord's management, operation and administration of the Project equal to five percent (5%) of the total Operating Expenses hereunder excluding insurance premiums and Real Property Taxes. To the extent the useful life of any improvement or item repaired or replaced by Landlord in connection with its maintenance or repair of the Project exceeds three (3) years, as reasonably determined by Landlord, the cost thereof shall be amortized, together with interest thereon at the prevailing rate available to Landlord from commercial banks, over such reasonable period as Landlord shall determine and such amortized cost shall be included in Operating Expenses. If the useful life of any such improvement or item repaired or replaced is three (3) years or less, then the cost thereof shall be deemed expensed and included immediately in its entirety in Operating Expenses, except as otherwise specified in Paragraph 6.2 above or in Paragraph 10 below.

In addition to the foregoing, Tenant shall reimburse Landlord in full upon demand for any damage to the Premises, the Building or the Outside Areas which is caused by Tenant, its agents, employees, contractors or invitees.

Notwithstanding anything to the contrary, it is expressly understood that Operating Expenses do not include (i) amounts due under loans encumbering the Premises, or payments of rent under ground leases of the Premises, (ii) depreciation of the Building or of any building service equipment, (iii) brokerage commissions incurred in connection with leasing all or any portion of the Building, (iv) attorneys' fees, accounting costs, and other costs directly related to leasing space in the Building, (v) damage caused by the active negligence, wilful misconduct, or omissions (subject to Paragraph 32.1) of the Landlord or its employees, agents, or contractors, (vi) damage to the Project caused by any other tenants of the Project, or their respective employees, agents, or contractors, and (vii) expenses related to repairing construction defects in the Building shell.

Tenant shall have the right to inspect the books and records of Landlord relating to the calculation of Operating Expenses no more often than one time in any twelve month period during the term of the Lease for purposes of verifying the accuracy of Landlord's calculation of the amount of Operating Expenses. Tenant shall exercise such right by delivery to Landlord of notice of Tenant's desire to so inspect such books and records, and dates and times during normal business hours during which Tenant would like to inspect the same, whereupon Landlord shall reasonably cooperate with Tenant to provide reasonable access to such books and records at Landlord's offices.

9.2 MONTHLY PAYMENTS. Tenant shall pay to Landlord on the first day of each calendar month during the term hereof an amount estimated by Landlord to be one-twelfth (1/12) of Tenant's Share of one half (1/2) of the Operating Expenses for such twelve (12) month period. Landlord estimates that one-twelfth (1/12) of Tenant's Share of one half (1/2) of the Operating Expenses for the initial year of the term will be \$2,387 (based on annual Operating Expenses for the Project of \$132,000). On or before March 15 of each calendar year during the term hereof Landlord shall furnish Tenant a statement prepared in accordance with generally accepted accounting principles, consistently applied, covering the preceding calendar year and the payments made by Tenant with respect to such period as set forth in this Paragraph 9. If Tenant's payments for Operating Expenses during said period did not equal one-half (1/2) of the actual amount of Tenant's share of Operating Expenses, Tenant shall pay to Landlord the deficiency with its next due installment of Base Rent after receipt of such statement. If said payments exceed the actual amount due hereunder, Landlord shall credit the excess against the next installment(s) of Base Rent. Operating Expenses shall be prorated as of the Commencement Date and the Expiration Date (or the date of any sooner termination of the term of this Lease) to reflect the portion of the calendar year occurring within the lease term.

10. Maintenance and Repairs.

10.1 TENANT'S OBLIGATIONS. Except as otherwise specifically provided herein, Tenant shall, at Tenant's expense, keep in good and safe condition, order and repair the Premises and every part thereof, including without limitation, all plumbing, heating, air conditioning, ventilating, fire sprinklers, electrical and lighting facilities, systems, appliances, and equipment within the Premises; and all fixtures, interior walls, interior surfaces of exterior walls, floors, ceilings, windows, doors, entrances, all glass (including plate glass), and skylights located within the Premises. Prior to the Commencement Date or promptly thereafter, Tenant at its sole cost shall install an electrical meter measuring all electrical service provided to the Premises, and shall install a new transformer serving only the Premises; such installation shall be subject to the provisions of Paragraph 11 hereof relating to alterations to the Premises. Tenant shall, at Tenant's expense, maintain at all times during the term of this Lease the heating, ventilating and air conditioning ("HVAC") systems serving the Premises in a manner reasonably satisfactory to Landlord, which maintenance at a minimum shall include replacement of filters, oiling and lubricating of machinery, parts replacement, adjustment of drive belts, oil changes, weatherproofing of all exposed HVAC equipment and ducts, and other preventive maintenance; provided, however, that Tenant shall have the benefit of all warranties available to Landlord regarding the equipment in said systems. Tenant hereby waives the benefit of any statute now or

hereafter in effect which would otherwise afford Tenant the right to make repairs at Landlord's expense or to terminate this Lease because of Landlord's failure to keep the Premises in good condition, order and repair. Tenant specifically waives all rights it may have under Sections 1932(1), 1941, and 1942 of the California Civil Code, and any similar or successor statute or law.

Notwithstanding anything to the contrary contained in the Lease, Tenant shall in no event be responsible for performing, or paying for the performance of, repair and maintenance of the Premises or the Building to the extent the same: (i) is caused by the active negligence, wilful misconduct, or omissions (subject to Paragraph 32.1) of Landlord or its agents, employees or contractors, (ii) is necessitated by the negligence or wilful misconduct of other tenants in the Building, or their agents, employees, or contractors; (iii) is necessitated by the occurrence of any peril required to be insured under policies of insurance required to be obtained by Landlord under this Lease, or (iv) results from construction defects of the Building. The liability of Tenant shall also be limited to the extent Landlord receives reimbursement from others, including insurers, guarantors, other tenants in the Building, and contractors.

10.2 LANDLORD'S OBLIGATIONS. Landlord shall keep in good condition, order and repair the foundation and exterior walls of the Building (excluding the interior of all walls and the exterior and interior of all windows, doors, plate glass, and show cases), and the exterior roof of the Building (except that Tenant shall repair at Tenant's expense any damage caused by the activities of Tenant, Tenant's HVAC maintenance service contractor, and/or Tenant's other agents on the roof, including but not limited to the installation of air conditioning equipment and/or duct work, or other roof penetrations, and improper flashing or caulking, and any damage to exposed air conditioning equipment and duct-work installed by or for Tenant). Expenses incurred by Landlord in connection with the above described obligations shall be Operating Expenses hereunder, except for expenses incurred in connection with maintaining the roof structure (but not the roof membrane), foundation and exterior walls of the Building which shall be borne solely by Landlord. Notwithstanding the foregoing, Tenant shall not be required to pay as Operating Expenses the cost of any repair or maintenance respecting the roof membrane which Tenant is able to demonstrate to the reasonable satisfaction of Landlord is required as a result of Landlord's activity on the roof or a defect in construction performed by Landlord. Landlord shall also paint the Building from time to time as reasonably necessary, and the cost thereof shall be an Operating Expense. Landlord shall exercise reasonable diligence in performing such repairs as soon as practicable. However, Landlord shall have no obligation to make repairs under this Paragraph 10.2 until a reasonable time after Landlord's receipt of written notice from Tenant of the need for such repairs.

Except as otherwise specifically provided herein, there shall be no abatement of rent or other sums payable by Tenant prior to or during any repairs by Tenant or Landlord, and Tenant waives all claims for loss of business or lost profits relating to any such repairs.

10.3 LANDLORD TO MAINTAIN AND CONTROL OUTSIDE AREAS. Landlord shall maintain the Outside Areas, together with all facilities and improvements now or hereafter located thereon, and together with all street improvements or other improvements adjacent thereto as may be required from time to time by governmental authority. The manner in which such areas shall be maintained and the expenditures therefor shall be at the sole discretion of Landlord; provided that Landlord maintains the Outside Areas in such a fashion as achieves substantially the same level of quality in which Landlord maintained the Outside Areas during PSC's occupancy of the Premises. Landlord shall at all times have exclusive control of the Outside Areas and may at any time temporarily close any part thereof, may exclude and restrain anyone from any part thereof (except the bona fide customers, employees and invitees of Tenant who use the Outside Areas in accordance with the rules and regulations that Landlord may from time to time promulgate), and Landlord may change the configuration of the Outside Areas or the location of facilities thereon so long as any such change by Landlord does not unreasonably interfere with Tenant's use of the Premises. Landlord shall also be entitled to employ third parties to operate and maintain all or any part of such areas on such terms and conditions as Landlord shall in its sole discretion deem reasonable and proper. In exercising any such rights, Landlord shall make a reasonable effort to minimize any disruption of Tenant's business.

10.4 HVAC REPLACEMENT AND PARKING LOT RESURFACING. If the HVAC equipment (or any portion thereof) servicing the office portion of the Premises (as opposed to the manufacturing portion of the Premises, for which Tenant shall be solely liable for HVAC replacement costs) must be replaced at any time during the Lease term, or the parking lot adjacent to the Building servicing the tenants of the Building requires Major Resurfacing (as defined below), as reasonably determined by Landlord, at any time during the Lease term, then the cost of such replacement or resurfacing, as the case may be, shall be borne by both Landlord and Tenant in accordance with the following formula. Tenant shall pay such portion of the cost which is equal to  $43.4\%$  of a fraction, the numerator of which is the number of years remaining in the Lease term, and the denominator of which is the useful life (as reasonably determined by Landlord) of the new HVAC system, or the resurfaced parking lot, as the case may be. In the event Tenant should exercise any options to extend the Lease term which extended terms commence after such replacement or resurfacing, then Tenant shall

pay to Landlord upon commencement of each such extended term the difference between the amount owed by Tenant pursuant to the immediately preceding sentence, and the amount calculated pursuant to the preceding sentence assuming that the remaining term of the Lease includes the years of such extended term. For purposes of this subparagraph, "Major Resurfacing" shall be defined to mean any resurfacing of the parking lot the cost of which exceeds Ten Thousand Dollars (\$10,000.00); to the extent the cost of resurfacing is less than Ten Thousand Dollars (\$10,000.00), then the entire cost shall be an Operating Expense in the year in which it is incurred by Landlord.

11. Alterations.

11.1 LANDLORD'S CONSENT REQUIRED. Tenant shall not, without Landlord's prior written consent (which consent shall not unreasonably be withheld or delayed beyond thirty (30) days after Tenant's written request to Landlord to make the same) make any alterations, improvements, additions, or utility installations (collectively called "alterations") in, on or about the Premises, except for nonstructural alterations which during any twelve (12) month period, in the aggregate, cost no more than Twenty Thousand Dollars (\$20,000). As used in this Paragraph 11.1, the term "utility installation" means power panels, wiring, fluorescent fixtures, space heaters, conduits, air conditioning and plumbing. Should Tenant make any alterations requiring the prior written consent of Landlord without obtaining such consent, Tenant shall immediately remove the same at Tenant's expense upon demand by Landlord.

11.2 PLANS AND PERMITS. Any alteration that Tenant shall desire to make in or about the Premises and which requires the consent of Landlord shall be presented to Landlord in written form, with proposed detailed plans and specifications therefor prepared at Tenant's sole expense. Any consent by Landlord thereto shall be deemed conditioned upon Tenant's acquisition of all permits required to make such alteration from all appropriate governmental agencies, the furnishing of copies thereof to Landlord prior to commencement of the work, and the compliance by Tenant with all conditions of said permits in a prompt and expeditious manner, all at Tenant's sole expense. Upon completion of any alterations whether or not Landlord's consent thereto is required, Tenant, at Tenant's sole cost, shall immediately deliver to Landlord "as-built" plans and specifications therefor.

11.3 CONSTRUCTION WORK DONE BY TENANT. All construction work required or permitted to be done by Tenant shall be performed by licensed contractors in a prompt, diligent, and good and workmanlike manner, and shall not materially

diminish the value of the Building. Furthermore, all such construction work shall conform in quality and design with the Premises existing as of the time such work is performed. In addition, all such construction work shall be performed in compliance with all applicable statutes, ordinances, regulations, codes and orders of governmental authorities and insurers of the Premises. Tenant or its agents shall obtain and pay for all licenses and permits necessary therefor.

11.4 ROOF REPAIRS. All installation of air conditioning equipment and duct work requiring penetration of the roof shall be properly flashed and caulked. Any electrical or refrigeration conduits or other piping or materials installed by Tenant in the Building shall be installed beneath the surface of the roof (and not on the surface of the roof), and Tenant shall thereafter repair and re-roof the affected portions of the roof surface. Any equipment placed by Tenant on the roof shall be elevated and supported by Tenant so as not to inhibit drainage or Landlord's repair of the roof pursuant to Paragraph 10.2.

11.5 TITLE TO ALTERATIONS. Except as otherwise provided hereinbelow, Tenant shall at all times retain title to any alterations, and shall be entitled to claim any depreciation, investment tax credits, and other tax benefits available in connection therewith. Tenant shall also be entitled to remove any alterations installed by Tenant at its own expense, provided such removal can be accomplished without causing damage to structural portions of the Building, and provided further that Tenant at its sole expense promptly repairs any and all damage occasioned by such removal. If at the time Tenant installs or constructs any alterations, Tenant requests and receives Landlord's permission to leave such alterations on the Premises upon expiration or sooner termination of the Lease term, then Tenant shall have no obligation to remove the same upon expiration or sooner termination of the Lease term. If Tenant fails at the time of installation to request or obtain Landlord's consent to leaving such alterations on the Premises upon expiration or sooner termination of the Lease term, then Landlord shall be entitled to require Tenant to remove the same and restore the Premises to its original condition subject to reasonable wear and tear, perils, and Acts of God, prior to expiration or promptly after sooner termination of the Lease term, at Tenant's sole cost and expense. Tenant shall be entitled to leave the Tenant Improvements in the Premises upon expiration or sooner termination of the Lease term. Tenant shall be obligated to remove the Additional Improvements upon expiration or sooner termination of the Lease term. The rights of Landlord and obligations of Tenant under this paragraph shall survive termination of the Lease term.

All alterations and other property of Tenant which remain on the Premises upon expiration or sooner termination of the Lease term, subject to the

preceding subparagraph, shall be deemed abandoned by Tenant and at Landlord's sole election shall be deemed the sole property of Landlord without need for consideration therefor from Landlord to Tenant.

Landlord, within ten (10) days after demand from Tenant, shall execute and deliver any documents required by any supplier, lessor, or lender in connection with the installation in the Premises of Tenant's personal property or Tenant's trade fixtures in which Landlord waives any rights it may have or require with respect to that property, if the supplier, lessor, or lender agrees in writing that (a) it will remove that property from the Premises before the expiration of the Lease term or within thirty (30) days after sooner termination of the term, provided that if it does not remove the property within said period it shall have waived any rights it may have had to the property, and (b) it shall repair any damage to the Premises occasioned by such removal at its sole cost and expense within five (5) days after such removal.

11.6 MECHANICS' LIENS. Tenant shall keep the Premises, the Building, and the Project free from any liens arising out of any work performed, materials furnished or obligations incurred by Tenant. In the event that Tenant shall not, within ten (10) days following the imposition of any such lien, cause the same to be released of record, Landlord shall have, in addition to all other remedies provided herein and by law, the right, but no obligation, to cause the same to be released by such means as Landlord shall deem proper, including payment of the claim giving rise to such lien. All sums paid by Landlord for such purpose, and all reasonable expenses incurred by it in connection therewith, shall be payable to Landlord by Tenant on demand with interest at the rate of ten percent (10%) per annum, or the maximum rate permitted by law, whichever is less. Tenant shall give Landlord notice of the date of commencement of any work in the Premises not less than ten (10) days prior thereto, and Landlord shall have the right to post notices of non-responsibility or similar notices in or on the Premises in connection therewith.

12. UTILITIES. Prior to Tenant's occupancy of the Premises, or promptly thereafter, Tenant at its sole cost shall separately meter all utilities serving the Premises. For all periods of time prior to such separate metering, Tenant shall pay fifty percent (50%) of all utilities costs which are not separately metered and which are provided to the Building. Such separate metering shall be deemed an alteration of the Premises which is subject to the provisions of Paragraph 11 above. Tenant shall pay when due directly to the charging authority all charges for water, gas, electricity, telephone, refuse pickup, janitorial services, and all other utilities and services supplied or furnished to the Premises during the term of this Lease, together with any taxes thereon. In no event shall Landlord be liable to Tenant for failure or

interruption of any such utilities or services, unless caused by the willful misconduct of Landlord, and no such failure or interruption shall entitle Tenant to terminate this Lease or to withhold rent or other sums due hereunder. Landlord shall not be responsible for providing security guards or other security protection for all or any portion of the Premises, and Tenant shall at its own expense provide or obtain such security services as Tenant shall desire to insure the safety of the Premises.

13. Indemnity.

13.1 INDEMNITY BY TENANT. Tenant shall indemnify, protect, defend, and hold harmless Landlord from and against any and all claims, damages, loss, proceedings, causes of action, costs, expense or liability due to, but not limited to, bodily injury, including death resulting at any time therefrom, and/or property damage, now or hereafter arising from any act, work or things done or permitted to be done or otherwise suffered, or any omission in or about the Premises, the Building, or the Project, by Tenant or by any of Tenant's agents, employees, contractors, or invitees, or from any breach or default by Tenant in the performance of any obligation on the part of Tenant to be performed under the terms of this Lease, except to the extent such damage, loss, expense or liability is caused by the active negligence, willful misconduct or omission (subject to Paragraph 32.1) of Landlord or its agents, employees or contractors. Tenant shall also indemnify Landlord from and against all damage, loss, expense (including without limitation, attorneys' fees, costs of investigation, and expert witness fees), and liability incurred or suffered by Landlord in the defense of or arising out of or resulting from any claim or any action or proceeding brought thereon. In the event any action or proceeding shall be brought against Landlord by reason of any such claim, Tenant upon notice from Landlord shall defend the same at Tenant's expense with counsel reasonably satisfactory to Landlord. The obligations of Tenant contained in this paragraph shall survive the termination of this Lease.

13.2 INDEMNITY BY LANDLORD. Landlord hereby indemnifies Tenant from and against all damages arising out of any damage to any person or property occurring in, on or about the Premises and the Building resulting from the active negligence, wilful misconduct, or omissions (subject to Paragraph 32.1) of Landlord or its employees, agents and contractors, or from a breach of Landlord's obligations under the Lease, except to the extent caused by the acts or omissions of Tenant or its authorized representatives. Landlord's obligation under this paragraph to indemnify Tenant shall be limited to the sum that exceeds the amount of insurance proceeds, if any, received by Tenant as a result of such damage.

Notwithstanding the foregoing or any other provision in this Lease, Landlord shall in no event be liable to Tenant for lost profits of Tenant unless the same result from the wilful misconduct of Landlord, and Tenant hereby releases Landlord from liability for any such loss profits to such extent. This provision shall not be construed to release Landlord from any claim for damages arising from Landlord's wilful misconduct, to the extent such damages do not relate to lost profits.

14. Insurance.

14.1 TENANT'S LIABILITY INSURANCE. Tenant shall, at its sole cost and expense, obtain and keep in force during the term of this Lease either Comprehensive General Liability insurance or Commercial General Liability insurance applying to the use and occupancy of the Premises and the business operated by Tenant, or any other occupant, on the Premises. Such insurance shall include Broad Form Contractual liability insurance coverage. Such coverage shall have a minimum combined single limit of liability of at least Five Million Dollars (\$5,000,000). All such policies shall be written to apply to all bodily injury, property damage, personal injury and other covered loss, however occasioned. All such policies shall be endorsed to add Landlord and any lender or other party having an interest in the Premises named by Landlord as an additional insured and to provide that any insurance maintained by Landlord shall be excess insurance only. All such insurance shall provide for severability of interests; shall provide that an act or omission of one of the insureds shall not reduce or avoid coverage to the other insureds; and shall afford coverage for all claims based on acts, omissions, injury and damage, which claims occurred or arose (or the onset of which occurred or arose) in whole or in part during the policy period. The limits of all insurance described in this Paragraph 14.1 shall not, however, limit the liability of Tenant hereunder.

14.2 LANDLORD'S PROPERTY INSURANCE. Landlord shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Project in the amount of the full replacement value thereof, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, special extended perils (all risk), including boiler and machinery coverage and an inflation endorsement, and, if available, flood and/or earthquake. Such coverage shall include the Tenant Improvements described on EXHIBIT "C", but shall exclude coverage of (i) the Additional Improvements described on Exhibit "D" and all other leasehold improvements, additions, and alterations other than the Tenant Improvements described on EXHIBIT "C" existing from time to time on the Premises, and (iii) merchandise, fixtures, equipment and other personal property of Tenant. In addition, Landlord shall obtain and keep in force,

during the term of this Lease, a policy of rental loss insurance covering a period of one year, commencing on the date of loss, with proceeds payable to Landlord, which insurance may also cover all Real Property Taxes, insurance premiums, other Operating Expenses, and other sums payable by Tenant to Landlord hereunder for said period. The insurance coverage may include sprinkler leakage insurance if the Building contains fire sprinklers. Tenant shall have no interest in or right to the proceeds of any such insurance carried by Landlord.

Landlord shall make available to Tenant for Tenant's inspection all insurance bills received by Landlord from time to time relating to insurance required to be obtained by Landlord pursuant to this paragraph. It is understood that Landlord's insurance policy covering the Premises shall also cover the full replacement value of the Tenant Improvements, and that the proceeds of such insurance shall belong to Landlord and Tenant shall have no interest therein. In the event Tenant reasonably demonstrates to Landlord that Landlord can obtain insurance for the Premises, or the Building if Landlord obtains insurance for the entire Building rather than the Premises alone, at a rate which is 90% or less of the premiums charged for such insurance as has been obtained by Landlord, then Landlord at Tenant's written request shall obtain a policy of property insurance at such lower rate, provided such policy can be obtained with an insurer authorized to do business in the State of California which insurer has a financial rating of at least A 14 as rated in the most recent addition of Best's Insurance Reports, and such policy has reasonably comparable coverage and deductible amounts. Tenant shall not be required to pay any increases in property insurance costs to the extent such increases are caused by other tenants' uses of the Building in which the Premises are located. Similarly, Tenant shall be solely liable for any increases in property insurance costs to the extent such increases are caused by Tenant's use of the Premises or Tenant's activities thereon.

14.3 TENANT'S PROPERTY INSURANCE. Tenant shall, at Tenant's sole expense, obtain and keep in force during the term of this Lease, a policy of fire and extended coverage insurance including a standard "all risk" endorsement, insuring (i) the Additional Improvements described on EXHIBIT "D" and all other leasehold improvements, additions, and alterations existing from time to time in or to the Premises other than the Tenant Improvements described on EXHIBIT "C", and (iii) merchandise, fixtures, equipment and other personal property of Tenant within the Premises. Such insurance coverage shall be for the full replacement value thereof, as the same may increase from time to time due to inflation or otherwise. The proceeds from any such policies shall be used for the repair or replacement of such items so insured (except for the proceeds arising from damage to the Additional Improvements, which may be used as Tenant desires for purposes which may be

unrelated to repair or replacement of the Additional Improvements), and Landlord shall have no interest in the proceeds of such insurance.

14.4 PAYMENT. Tenant's Share of the premiums for the insurance obtained by Landlord pursuant to Paragraph 14.2 shall be deemed an Operating Expense hereunder. Upon request by Tenant, Landlord shall consult with Tenant and reasonably cooperate with Tenant to achieve the mix of premium amounts and deductible amounts for such insurance that are satisfactory to Tenant; provided that, Landlord's determination of the amounts thereof shall be final and Tenant's comments regarding same shall be advisory only. Tenant shall pay to Landlord the entire amount of any deductibles and other amounts not paid by Landlord's insurance carriers relating to claims under Landlord's insurance policies resulting from the acts or omissions of Tenant, or its agents, employees, and invitees. Tenant shall pay such deductibles to Landlord within thirty (30) days after receipt by Tenant of a copy of reasonable evidence of the amount due. Notwithstanding the foregoing, Landlord may obtain liability insurance and property insurance for the Project separately, or together with other buildings and improvements under blanket policies of insurance. In the latter case Tenant shall be liable for only such portion of the premiums for such blanket policies as are allocable to the Premises, as reasonably determined by the insurer or Landlord. If the term of this Lease does not commence or expire concurrently with the commencement or expiration, respectively, of the period covered by such insurance, Tenant's liability for premiums shall be prorated on an annual basis.

14.5 INSURANCE POLICIES. The insurance required to be obtained by Tenant pursuant to this paragraph shall be primary insurance and (a) shall provide that the insurer shall be liable for the full amount of the loss up to and including the total amount of liability set forth in the declarations without the right of contribution from any other insurance coverage of Landlord, (b) shall be in a form and contain a deductible amount satisfactory to Landlord, (c) shall be carried with companies acceptable to Landlord, and (d) shall specifically provide that such policies shall not be subject to cancellation, reduction of coverage or other change except after at least fifteen (15) days prior written notice to Landlord. The policy or policies, or duly executed certificates for them, together with satisfactory evidence of payment of the premium thereon, shall be deposited with Landlord on or prior to the Commencement Date, and upon each renewal of such policies, which shall be effected not less than fifteen (15) days prior to the expiration date of the term of such coverage. Tenant shall not do or permit to be done anything which shall invalidate any of the insurance policies referred to in this Paragraph 14.

14.6 WAIVER OF SUBROGATION. Tenant and Landlord each hereby waives any and all rights of recovery against the other, or against the officers, employees, agents and representatives of the other, for loss of or damage to the property of the waiving party or the property of others under its control, where such loss or damage is insured against under any insurance policy carried by Landlord or Tenant and in force at the time of such loss or damage. Tenant and Landlord shall, upon obtaining the policies of insurance required hereunder, give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease. Landlord and Tenant shall use their best efforts to cause each insurance policy obtained by such party to provide that the insurance company waives all rights of recovery by way of subrogation against the other party in connection with any damage covered by such policy and, if any such waiver of subrogation is not obtained, shall promptly notify the other party of such fact.

14.7 NO LIMITATION OF LIABILITY. Landlord makes no representation that the limits of liability specified to be carried by Tenant or Landlord under the terms of this Lease are adequate to protect any party. If Tenant believes that the insurance coverage required under this Lease is insufficient to adequately protect Tenant, Tenant shall provide, at its own expense, such additional insurance as Tenant deems adequate.

15. Damage or Destruction.

15.1 PARTIAL DAMAGE - INSURED. Subject to the provisions of Paragraphs 15.3 and 15.4 below, if the Premises or the Building, as the case may be, are damaged such that restoration thereof can in Landlord's reasonable estimation be completed within two hundred ten (210) days, and the damage is caused by a peril required to be insured against by Landlord pursuant to Paragraph 14, Landlord shall at Landlord's expense repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. In the event Landlord maintains earthquake insurance (which the parties acknowledge Landlord is not obligated by this Lease to carry), then subject to the provisions of Paragraphs 15.3 and 15.4 below, if the Premises or the Building, as the case may be, are damaged such that restoration thereof can in Landlord's reasonable estimation be completed within two hundred ten (210) days, and the damage is caused by earthquake, Landlord shall, subject to the following provisions of this Paragraph 15.1, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. At such time as the amount of the deductible for the earthquake damage is determined by the insurance company and Landlord agrees to such amount, Landlord shall deliver notice thereof to Tenant. On or before the Tenant's Share Payment Date (as defined below), Tenant

shall deliver to a depository in accordance with the provisions of Paragraph 15.10 the following sums in cash or other readily available funds: (i) 43.4% of the amount by which the amount of such deductible exceeds Fifty Thousand Dollars (\$50,000), provided that Tenant shall not be obligated to pay more than 43.4% of Fifty Thousand Dollars (\$50,000) under this subparagraph (i), and (ii) 43.4% of one half of the amount by which such deductible exceeds One Hundred Thousand Dollars (\$100,000). The formula set forth in the preceding sentence is based upon the Landlord paying the first Fifty Thousand Dollars (\$50,000) of the earthquake deductible, all tenants in the Building together paying the next Fifty Thousand Dollars (\$50,000) of the earthquake deductible, and Landlord on the one hand and said Building tenants on the other hand each paying one half of any earthquake deductible amount exceeding One Hundred Thousand Dollars (\$100,000) (all such amounts payable by all tenants of the Building herein called the "Aggregate Building Tenants' Share"). The "Tenant's Share Payment Date" shall mean (i) fifteen (15) days after Landlord delivers notice to Tenant of the deductible amount if the amount of the earthquake deductible payable by Tenant pursuant to the foregoing is Fifty Thousand Dollars (\$50,000) or less, and (ii) forty five (45) days after Landlord delivers notice to Tenant of the deductible amount if the amount payable by Tenant is more than Fifty Thousand Dollars (\$50,000). In the event Tenant fails to pay such amount for any reason by the Tenant's Share Payment Date, or in the event Landlord does not receive by the Tenant's Share Payment Date the Aggregate Building Tenants' Share, then Landlord shall have no obligation to commence or complete repair of such earthquake damage, and shall be entitled to terminate this Lease by delivery to Tenant of notice of such termination within ten (10) days after the Tenant's Share Payment Date; provided that Landlord shall be entitled to, but shall have no obligation to, repair all such earthquake damage at Landlord's expense, including payment of the deductible, such election to so repair to be made by Landlord's delivery of notice thereof to Tenant within ten (10) days after the Tenant's Share Payment Date, in which event this Lease shall remain in full force and effect.

15.2 PARTIAL DAMAGE - UNINSURED. Subject to the provisions of Paragraphs 15.3 and 15.4, if at any time during the term hereof the Premises are damaged and the damage is caused by a peril (other than earthquake) not required to be insured by Landlord pursuant to Paragraph 14, Landlord may at Landlord's option either (a) repair such damage as soon as reasonably possible at Landlord's expense, in which event this Lease shall continue in full force and effect, or (b) give written notice of termination of this Lease to Tenant within thirty (30) days after the date of the occurrence of such damage, with the effective date of such termination to be the date of the occurrence of such damage. In the event Landlord gives such notice of termination of this Lease, Tenant shall have the right, within ten (10) days after receipt

of such notice, to agree in writing on a basis satisfactory to Landlord to pay for the entire cost of repairing such damage less only the amount of insurance proceeds, if any, received by Landlord, in which event the notice of termination shall be ineffective and this Lease shall continue in full force and effect, and Landlord shall proceed to make such repairs as soon as reasonably possible. If Tenant does not give such notice within such ten (10) day period, this Lease shall be terminated pursuant to such notice of termination by Landlord.

15.3 TOTAL DESTRUCTION. If at any time during the term hereof the Premises are destroyed such that restoration thereof cannot in Landlord's reasonable estimation be completed in two hundred ten (210) days, from any cause whether or not covered by the insurance maintained pursuant to Paragraph 14, this Lease shall at the election of Landlord or Tenant terminate as of the date of such destruction. Landlord and Tenant shall exercise their respective rights to terminate this Lease under this subparagraph 15.3 by delivery of notice of termination to the other within thirty (30) days after Landlord notifies Tenant of the estimated period of restoration. In the event neither party elects to so terminate this Lease, Landlord shall at Landlord's expense repair such damage, and restore the Premises and the Tenant Improvements to their condition existing immediately prior to such damage as soon as reasonably possible, and this Lease shall continue in full force and effect.

15.4 DAMAGE NEAR END OF TERM. If the Premises are destroyed or damaged in whole or in part to the extent of One Hundred Thousand Dollars (\$100,00.00) or more whether from an insured or uninsured casualty, during the last year of the term of this Lease, either party may at its option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to the other party within thirty (30) days after the date of occurrence of such damage. Notwithstanding the foregoing, if Tenant is then entitled to exercise any option to extend the term of this Lease pursuant to other provisions of this Lease, and Tenant exercises such option in accordance with such provision, then this Lease shall not be terminated under this subparagraph (although it may be terminated in accordance with subparagraph 15.3 above or other provisions of this Lease, to the extent applicable).

15.5 ABATEMENT OF RENT. Notwithstanding anything to the contrary contained in this Lease, if the Premises are damaged, the Base Rent payable hereunder for the period commencing on the occurrence of such damage shall be abated until completion of repair or restoration of such damage, or termination of the Lease (if the Lease is terminated pursuant to other provisions of this Lease). Such abatement of Base Rent shall be in proportion to the extent to which Tenant's use of the Premises is impaired during said period of time; provided that, nothing herein shall

be construed to preclude Landlord from being entitled to collect the full amount of any rental loss insurance proceeds. In addition to abatement of Base Rent, Tenant's obligation to pay Operating Expenses shall also be abated to the extent of proceeds therefor, if any, received by Landlord under the rent abatement policy required to be maintained by Landlord under Paragraph 14.2 above. Except for such abatement of Base Rent and Operating Expenses, if any, and subject to Paragraph 13.2, Tenant shall have no claim against Landlord for any damage suffered by reason of any such damage, destruction, repair or restoration.

15.6 WAIVER. Tenant waives the provisions of California Civil Code Sections 1932(2) and 1933(4), and any similar or successor statutes relating to termination of leases when the thing leased is substantially or entirely destroyed, and agrees that any such occurrence shall instead be governed by the terms of this Lease.

15.7 TENANT'S PROPERTY. Landlord's obligation to rebuild or restore shall not include restoration of the Additional Improvements, or Tenant's trade fixtures, equipment, merchandise, or any other improvements, alterations or additions made by Tenant to the Premises after the Commencement Date or made by PSC at any time during its occupancy of the Premises from 1985 through May of 1995.

15.8 NOTICE OF DAMAGE. Tenant shall notify Landlord within five (5) days after the occurrence thereof of any damage to all or any portion of the Premises. In no event shall Landlord have any obligation to repair or restore the Premises pursuant to this Paragraph 15 until a reasonable period of time after Landlord's receipt of notice from Tenant of the nature and scope of any damage to the Premises, and a reasonable period of time to collect insurance proceeds arising from such damage (unless such damage is clearly not covered by insurance then in effect covering the Premises). Landlord shall proceed diligently to collect insurance proceeds, and shall commence any obligation it may have to repair the Premises as promptly as reasonably possible.

15.9 REPLACEMENT COST. The determination by a third party expert or consultant, selected by Landlord in its reasonable discretion, of the estimated period of repair of any damage shall be conclusive for purposes of this Paragraph 15. Such determination shall be made within thirty (30) days of the date of damage, provided Tenant notifies Landlord of such damage in accordance with subparagraph 15.8 above.

15.10 DISBURSEMENT ACCOUNT. In the event Landlord is required to restore the Premises pursuant to any of the provisions of this Paragraph 15, then Landlord shall deposit any insurance proceeds received in connection therewith with

an institutional trustee or other depository reasonably acceptable to Tenant, and the proceeds of such insurance shall be drawn from time to time to cover costs of such restoration only upon submission by Landlord of invoices for such costs or other reasonable evidence of Landlord of the costs incurred to the date of such requested draw.

16. Condemnation.

16.1 PARTIAL TAKING. Subject to Paragraph 16.5, if part of the Premises is taken for any public or quasi-public use, under any statute or right of eminent domain (collectively a "taking"), and a part of the Premises remains which is reasonably suitable for Tenant's continued occupancy for the uses permitted by this Lease, and a portion of the parking area within the Project remains which is equivalent to at least eighty percent (80%) of the parking area in the Project as of the Commencement Date, this Lease shall, as to the part so taken, terminate as of the date the condemnor or purchaser takes possession of the property being taken, and the monthly Base Rent payable hereunder shall be reduced in the same proportion that the floor area of the portion of the Premises so taken bears to the floor area of the Premises immediately prior to such taking. Landlord shall, at its own cost and expense, make all necessary repairs or alterations to the Premises in order to make the portion of the Premises not taken a complete architectural unit. Such work shall not, however, exceed the scope of the work done by Landlord in originally constructing the Premises. Each party hereto waives the provisions of California Code of Civil Procedure Section 1265.130 allowing either party to petition the superior court to terminate this Lease in the event of a partial taking of the Premises.

16.2 TOTAL TAKING. Subject to Paragraph 16.5, if all of the Premises are taken, or such part thereof is taken so that there does not remain a portion of the Premises suitable for Tenant's continued occupancy for the uses permitted hereunder, or more than twenty percent (20%) of the parking area in the Project as of the Commencement Date is taken, such taking shall be treated as a total taking and this Lease shall terminate upon the date possession shall be taken by the condemning authority.

16.3 DISTRIBUTION OF AWARD. All compensation awarded upon a taking governed by Paragraph 16.1 or Paragraph 16.2 shall belong to and be paid to Landlord, except that Tenant shall be entitled to make a separate claim to the taking authority for all losses it suffers as a consequence of the taking, including losses relating to loss of use of the Additional Improvements.

16.4 SALE UNDER THREAT OF CONDEMNATION. A sale by Landlord to any authority having the power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, shall be deemed a taking under the power of eminent domain for purposes of this Paragraph 16.

16.5 TEMPORARY TAKING. If all or any part of the Premises is occupied, taken, or appropriated by military or other public or quasi-public use or other governmental authority for less than one hundred eighty (180) consecutive days, it shall not constitute a taking of the Premises which would be governed by Paragraph 16.1 or Paragraph 16.2. In such event, during such a "temporary taking," all of the provisions of this Lease shall remain in force and effect, except that the monthly Base Rent and Operating Expenses payable during such temporary taking shall be reduced in the same proportion that the floor area of the portion of the Premises so occupied, taken, or appropriated bears to the floor area of the Premises as of the day immediately preceding the occupation, taking, or appropriation. Any award that may be paid in connection with such a temporary taking shall be paid to Landlord. In the event a taking which appears, at its commencement, to be only a temporary taking nevertheless continues for one hundred eighty (180) consecutive days or more, a partial or total taking, as the case may be, shall be deemed to have occurred on the one hundred eightieth (180th) consecutive day of such taking, and shall be governed by the provisions of either Paragraph 16.1 or Paragraph 16.2 as the case may be.

17. Assignment and Subletting.

17.1 PROHIBITION OF ASSIGNMENT AND SUBLETTING. Tenant shall not assign this Lease, or any interest therein, voluntarily or involuntarily, and shall not sublet the Premises or any part thereof, or any right or privilege appurtenant thereto, or suffer any other person (the agents and servants of Tenant excepted) to occupy or use the Premises, or any portion thereof, without the prior written consent of Landlord in each instance pursuant to the terms and conditions set forth below, which consent shall not unreasonably be withheld or delayed beyond the twenty (20) day period specified in Paragraph 17.2. Any assignment or subletting by Tenant without the written consent of Landlord shall be void and shall, at the option of Landlord, terminate this Lease.

17.2 DOCUMENTATION. Prior to any assignment or sublease which Tenant desires to make, Tenant shall provide to Landlord the name and address of the proposed assignee or sublessee, a statement of the proposed use of the Premises by the assignee or sublessee (including an indication of the extent to and manner in which Hazardous Materials will be utilized), and true and complete copies of all documents relating to Tenant's prospective agreement to assign or sublease, and shall specify all

consideration to be received by Tenant for such assignment or sublease in the form of lump sum payments, installments of rent, or otherwise. For purposes of this Paragraph 17, the term "consideration" shall include, without limitation, all monies or other consideration of any kind, if such sums are related to Tenant's interest in this Lease or in the Premises, including but not limited to, bonus money, and payments (in excess of book value thereof) for Tenant's assets, fixtures, inventory, accounts, good will, equipment, furniture, general intangibles, and any capital stock or other equity ownership of Tenant. Within twenty (20) days after the receipt of such written notice, Landlord shall either consent in writing to such proposed assignment or sublease subject to the terms and conditions hereinafter set forth, or notify Tenant in writing that Landlord refuses such consent, specifying reasonable grounds for such refusal.

17.3 TERMS AND CONDITIONS. As a condition to Landlord's granting its consent to any assignment or sublease, Tenant and the proposed assignee or sublessee must demonstrate to Landlord's reasonable satisfaction that the assignee or sublessee is financially responsible and that the proposed use does not pose an unreasonable risk (as determined by Landlord in its reasonable discretion) of contamination of the Project with Hazardous Materials and is not otherwise injurious to the Premises. Without limiting the generality of the foregoing, Landlord shall be entitled to withhold consent to any proposed assignment of this Lease unless Tenant demonstrates to the reasonable satisfaction of Landlord that the proposed assignee has a net worth equal to at least the greater of (a) Eleven Million Dollars (\$11,000,000.00), or (b) such greater net worth as Analog Devices, Inc. or its successor may have at the time of such proposed assignment, up to Eighteen Million Dollars (\$18,000,000.00). As a condition for granting its consent to any proposed assignment or subletting, Landlord may require that Tenant agree to pay to Landlord, as additional rent, as and when received by Tenant, and after first deducting reasonable real estate brokerage commissions and attorneys' fees, if any, incurred in connection with such assignment or subletting, fifty percent (50%) of the excess, if any, of (i) the fair market value rent (triple net) of the Premises, determined as set forth below, assuming such amount is payable for the duration of the term of such assignment or sublease, over (ii) the Base Rent payable by Tenant to Landlord under the Lease at the time of such sublease or assignment, assuming such amount is payable for the duration of the term of such assignment or sublease. The fair market value rent for the Premises, for purposes of the preceding sentence, shall be determined without regard to the value added to the Premises by the specialized additions and improvements to the Premises installed by Tenant at its own expense or previously installed by PSC at PSC's expense solely for its manufacturing business on the Premises, such as clean rooms, process equipment, and trade fixtures. In the event Landlord and Tenant are unable to agree upon the fair market value rent

of the Premises, the dispute shall be arbitrated in accordance with the rules of the American Arbitration Association.

Tenant may assign its interest in the Lease without the prior written consent of Landlord to any corporation which controls or is controlled by Analog Devices, Inc., or any corporation which results from a merger or consolidation with Analog Devices, Inc.; provided that such assignment is made to an entity that satisfies the net worth criteria set forth hereinabove.

Each assignment or sublease agreement to which Landlord has consented shall be an instrument in writing in form satisfactory to Landlord, and shall be executed by both Tenant and the assignee or sublessee, as the case may be. Each such assignment or sublease agreement shall recite that it is and shall be subject and subordinate to the provisions of this Lease, that the assignee or sublessee accepts such assignment or sublease and agrees to perform all of the obligations of Tenant hereunder, and that the termination of this Lease shall, at Landlord's sole election, constitute a termination of every such assignment or sublease. In the event Landlord shall consent to an assignment or sublease, Analog Devices, Inc. shall nonetheless remain primarily liable for all obligations and liabilities of Tenant under this Lease, including but not limited to the payment of rent.

18. Events of Default and Remedies.

18.1 EVENTS OF DEFAULT. A breach of this Lease shall exist if any of the following events (hereinafter referred to as "Event of Default") shall occur:

(1) Failure of Tenant to pay within five (5) days after delivery of notice from Landlord that any installment of rent or other payment required to be made by Tenant hereunder is due;

(2) Tenant's failure to perform any other term, covenant or condition contained in this Lease and such failure shall have continued for thirty (30) days after written notice of such failure is delivered to Tenant or such longer period as may reasonably be necessary to cure such failure provided Tenant commences such cure within said thirty (30) days and thereafter diligently prosecutes the same to completion;

(3) Tenant's vacating or abandonment of Premises;

(4) Tenant's assignment of its assets for the benefit of its creditors;

(5) The sequestration of, attachment of, or execution on, any substantial part of the property of Tenant or on a property essential to the conduct of Tenant's business, shall have occurred and Tenant shall have failed to obtain a return or release of such property within thirty (30) days thereafter, or prior to sale pursuant to such sequestration, attachment of whichever is earlier; or

(6) A court having jurisdiction shall have made or entered any decree or order (a) adjudging Tenant to be bankrupt or insolvent, (b) approving as properly filed a petition seeking reorganization of Tenant or an arrangement under the bankruptcy laws or any other applicable debtors' relief law or statute of the United States or any State thereof, (c) appointing a receiver, trustee or assignee of Tenant in bankruptcy or insolvency or for its property, or (d) directing the winding up or liquidation of Tenant; and such decree or order shall have continued for a period of thirty (30) days; or Tenant shall have voluntarily submitted to or filed a petition seeking any such decree of order.

18.2 REMEDIES. Upon any Event of Default, Landlord shall have the following remedies, in addition to all other rights and remedies provided by law, to which Landlord may resort cumulatively, or in the alternative:

(1) RECOVERY OF RENT. Landlord shall be entitled to keep this Lease in full force and effect (whether or not Tenant shall have abandoned the Premises) and to enforce all of its rights and remedies under this Lease, including the right to recover rent and other sums as they become due, plus interest at the rate of ten percent (10%) per annum from the due date of each installment of rent or other sum until paid.

(2) TERMINATION. Landlord may terminate this Lease by giving Tenant written notice of termination. On the giving of such notice all Tenant's rights in the Premises and the Building and parcel of which the Premises are a part shall terminate. Upon the giving of the notice of termination, Tenant shall surrender and vacate the Premises in the condition required by Paragraph 26, and Landlord may reenter and take possession of the Premises and all the remaining improvements and property and eject Tenant or any of Tenant's subtenants, assignees or other person or persons claiming any right under or through Tenant or eject some and not others or eject none. This Lease may also be terminated by a judgement specifically providing for termination. Any termination under this paragraph shall not release Tenant from the payment of any sum then due Landlord or from any claim for damages or rent previously accrued or then accruing against Tenant. In no event shall any one or more of the following actions by Landlord constitute a termination of this Lease:

(a) maintenance and preservation of the Premises;

(b) efforts to relet the Premises;

(c) appointment of a receiver in order to protect Landlord's interest hereunder;

(d) consent to any subletting of the Premises or assignment of this Lease by Tenant, whether pursuant to provisions hereof concerning subletting and assignment or otherwise; or

(e) any other action by Landlord or Landlord's agents intended to mitigate the adverse effects from any breach of this Lease by Tenant.

(3) DAMAGES. In the event this Lease is terminated pursuant to subparagraph 18.2(2) above, Landlord shall be entitled to damages in the following sums: (a) the worth at the time of award of the unpaid rent which had been earned at the time of termination; plus

(b) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(c) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; and

(d) any other amounts necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease, or which in the ordinary course of things would be likely to result therefrom including, without limitation, the following: (i) expenses for cleaning, repairing or restoring the Premises; (ii) expenses for altering, remodeling or otherwise improving the Premises for the purposes of reletting; (iii) costs of carrying the Premises such as taxes and insurance premiums thereon, utilities and security precautions; (iv) expenses in retaking possession of the Premises; (v) attorneys' fees and court costs; and (vi) any unamortized real estate brokerage commission paid in connection with this Lease.

(e) The "worth at the time of award" of the amounts referred to in subparagraphs (a) and (b) of this paragraph is computed by allowing interest at the rate of ten percent (10%) per annum. The "worth at the time of award" of the amount referred to in subparagraph (c) of this paragraph is computed by discounting such amount at the discount rate of the Federal Reserve Board of San Francisco at the time of award plus one percent (1%). The term "rent" as used in this paragraph shall include all sums required to be paid by Tenant to Landlord pursuant to the terms of this Lease.

19. ADVERTISEMENTS AND SIGNS. Tenant shall not place or permit to be placed any sign, display, advertisement, or decoration ("sign") on the exterior of the Building, or elsewhere in the Project or on the Premises, without the prior written consent of Landlord as to the color, size, style, character, content, and location of each such sign. Upon termination of this Lease, Tenant shall remove any sign which it has placed in the Project or on the Premises or the Building, and shall repair any damage caused by the installation or removal of such sign.

20. ENTRY BY LANDLORD. Landlord and its agents shall be entitled to enter into and upon the Premises at all reasonable times, upon reasonable notice (except in the case of an emergency, in which event no notice shall be required), for the following purposes: (i) to perform Landlord's maintenance and repair responsibilities; (ii) to post notices of non-responsibility for alterations, additions, or repairs; or (iii) to place upon the Premises any ordinary "for sale" signs and to show the Premises to prospective purchasers or lenders; and, during the ninety (90) day period prior to the expiration of this Lease, or upon any Event of Default, to place upon the Premises any usual or ordinary "for lease" signs and exhibit the Premises to prospective tenants at reasonable hours.

Landlord's rights of entry as set forth in this Paragraph 20 shall be subject to the reasonable security regulations of Tenant, and to the requirement that Landlord use reasonable efforts to minimize interference with Tenant's business activities on the Premises.

21. Subordination and Attornment.

Notwithstanding anything contained in this Lease, and except with respect to any existing deeds of trust or other liens encumbering the Project or any portion thereof as of the Commencement Date (which the parties acknowledge are prior to this Lease, subject to such rights as Tenant may receive in the event a non-disturbance agreement is obtained from the beneficiary of such deed of trust or other lienholder

concurrently with the execution of this Lease), this Lease shall not be subject to or subordinate to any ground or underlying lease or to any lien, mortgage, deed of trust, or security interest now or hereafter affecting the Premises, nor shall Tenant be required to execute any documents subordinating this Lease, unless the ground lessor, lender, or other holder of the interest to which this Lease shall be subordinated agrees to execute a recognition and non-disturbance agreement in substantially the form set forth on EXHIBIT "E".

22. ESTOPPEL CERTIFICATES AND FINANCIAL STATEMENTS. Tenant shall within seven (7) days following request by Landlord: (a) execute and deliver to Landlord any documents, including estoppel certificates, in the form presented to Tenant by Landlord (1) certifying that this Lease has not been modified and is in full force and effect or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect, (2) stating the date to which the rent and other charges are paid in advance, if at all, (3) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, or if there are uncured defaults on the part of Landlord, stating the nature of such uncured defaults, and (4) evidencing the status of this Lease as may be required either by a lender making a loan to Landlord to be secured by a deed of trust or mortgage encumbering the premises or a purchaser of the premises from Landlord; and (b) deliver to Landlord the best available current (and public, if the stock of Tenant is publicly traded over a United States nationally recognized stock exchange) financial statements of Tenant with an opinion of a certified public accountant, if available, including a balance sheet and profit and loss statement for the then current fiscal year, and the two (2) immediately prior fiscal years (if available), all prepared in accordance with generally accepted accounting principles consistently applied. Landlord shall only be entitled to request such financial statements in connection with an intended disposition or refinancing of the Building.

Landlord shall within seven (7) days following request by Tenant, provided such request is made only in connection with a proposed assignment or sublease of Tenant's interest in this Lease pursuant to Paragraph 17 above: (a) execute and deliver to Tenant an estoppel certificate in the form presented to Landlord by Tenant (1) certifying that this Lease has not been modified and is in full force and effect or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect, (2) stating the date to which the rent and other charges are paid in advance, if at all, and (3) acknowledging that there are not, to Landlord's knowledge, any uncured defaults on the part of Tenant hereunder, or if there are uncured defaults on the part of Tenant, stating the nature of such uncured defaults.

23. NOTICES. Any notice, approval, request, demand, or consent (collectively "notice") required or desired to be given under this Lease shall be in writing and shall be personally served or delivered by commercial courier (with signed receipt) or United States mail, registered or certified, postage prepaid, and addressed to the party to be served at the last address given by that party to the other party under the provisions of this paragraph. At the date of execution of this Lease, the addresses of Landlord and Tenant are as set forth above in the preamble to this Lease. Either party may change its address by notice to the other party. Any notice delivered by United States mail pursuant to this paragraph shall be deemed to have been delivered five (5) days after the posted date of mailing.

24. WAIVER. The waiver by either party of any breach of any term, covenant, or condition herein contained shall not be deemed to be a waiver of such term, covenant or condition or any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance of rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to pay the particular rental so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent. No term, covenant or condition shall be deemed to have been waived by either party unless such waiver is in writing and signed by the party making such waiver.

25. ATTORNEY'S FEES. If any action proceeding at law or in equity, or an arbitration proceeding (collectively an "action"), shall be brought to recover any rent under this Lease, or for or on account of any breach of or to enforce or interpret any of the terms, covenants, or conditions of this Lease, or for the recovery of possession of the Premises, the prevailing party shall be entitled to recover from the other party as a part of such action, or in a separate action brought for that purpose, its reasonable attorney's fees and costs and expenses (including expert witness fees) incurred in connection with the prosecution or defense of such action. "Prevailing party" within the meaning of this paragraph shall include, without limitation, a party who brings an action against the other after the other is in breach or default, if such action is dismissed upon the other's payment of the sums allegedly due or upon the other's performance of the covenants allegedly breached, or if the party commencing such action or proceeding obtains substantially the relief sought by it in such action, whether or not such action proceeds to a final judgment or determination.

26. SURRENDER. Tenant shall, upon expiration or sooner termination of this Lease, surrender the Premises to Landlord with all Additional Improvements removed and all damage occasioned by such removal repaired, and otherwise in good and clean

broom swept condition (reasonable wear and tear and damage due to causes beyond the reasonable control of Tenant excepted) with the HVAC equipment serving the Premises in operating order and in good repair. Tenant, on or before the expiration or sooner termination of this Lease, shall remove all of its personal property and trade fixtures from the Premises. If the Premises are not so surrendered at the expiration or sooner termination of this Lease, Tenant shall indemnify Landlord against loss or liability resulting from delay by Tenant in so surrendering the Premises, including without limitation, any claims made by any succeeding tenant founded on such delay, and losses to Landlord due to lost opportunities to lease to succeeding tenants.

27. HOLDING OVER. This Lease shall terminate without further notice at the expiration of the Lease term. Any holding over by Tenant after expiration shall not constitute a renewal or extension of the Lease term or give Tenant any rights in or to the Premises unless otherwise expressly provided in this Lease. Any holding over after expiration of the Lease term with the express written consent of Landlord shall be construed to be a tenancy from month to month, at one hundred fifty percent (150%) of the monthly Base Rent for the last month of the Lease term, and shall otherwise be on the terms and conditions herein specified insofar as applicable, unless otherwise mutually agreed in writing by the parties.

28. TRANSFER OF PREMISES BY LANDLORD. The term "Landlord" as used in this Lease, so far as the covenants or obligations on the part of Landlord are concerned, shall be limited to mean and include only the owner at the time in question of the fee title to the Premises. In the event of any transfer of such fee title, the Landlord herein named (and in case of any subsequent transfer or conveyance, the then grantor) shall after the date of such transfer or conveyance be automatically freed and relieved of all liability with respect to performance of any covenants or obligations on the part of Landlord contained in this Lease thereafter to be performed; provided, that any funds in the hands of Landlord or the then grantor at the time of such transfer in which Tenant has an interest, shall be turned over to the grantee. The covenants and obligations contained in this Lease on the part of Landlord shall, subject to the foregoing, be binding upon each Landlord hereunder only during his or its respective period of ownership.

29. Option(s) to Extend Term.

29.1 EXERCISE OF OPTION. Subject to the provisions of this Paragraph 29, Tenant shall have the right to extend the term of this Lease for three (3) additional periods of five (5) years each, unless the term is sooner terminated as provided in this Lease. Unless otherwise expressly agreed in writing by the parties hereto, the term of

this Lease shall in no event extend beyond March 31, 2015. Tenant shall exercise each of such rights, if at all, only by giving Landlord written notice of exercise of such right on or before nine (9) months prior to the then scheduled expiration date of the Lease term, and only if Tenant is not in default under this Lease when Tenant exercises such right (provided, Tenant has received notice of such default and has not cured said default within the time permitted for such cure). If Tenant fails to exercise any such rights to extend in accordance with this Paragraph 29, such right shall terminate. The second right to extend may be exercised only if the first right to extend has previously been properly exercised, and the third right to extend may be exercised only if the second right to extend has previously been properly exercised. If Tenant exercises any such rights in accordance with this Paragraph 29, the term of this Lease shall be extended for one period of five (5) years subject to the agreements, covenants, conditions, and provisions set forth in this Lease, except for the amount of Base Rent payable by Tenant, which shall be determined as set forth in Paragraph 29.2.

29.2 RENT DURING EXTENDED TERM. The monthly Base Rent during each such extended term of this Lease shall initially be equal to the fair market rent of the Premises as of the commencement date of such extended term. Such fair market rent shall take into account the rent adjustment mechanism to be employed during such extended term.

The parties shall have thirty (30) days after Landlord receives notice of Tenant's exercise of its right to extend the term in which to agree on minimum monthly Base Rent during the extended term. If the parties agree on the minimum monthly Base Rent for the extended term during such thirty (30) day period, they shall immediately execute an amendment to this Lease stating the minimum monthly Base Rent for such extended term.

If the parties are unable to agree on the minimum monthly Base Rent for the extended term within such thirty (30) day period, then within said thirty (30) days each party, at its cost and by giving notice to the other party, shall appoint an appraiser with at least five (5) years' full time commercial appraisal or brokerage experience in the Sunnyvale area to appraise and set the minimum monthly Base Rent for the extended term. Said appraisers shall be instructed to determine the fair market rent for the Premises within thirty (30) days after their appointment, and to base their determination on the rent which will be applicable as of the commencement of the applicable extended term for comparable space in comparable buildings in comparable geographic areas leased on terms comparable to this Lease, taking into account the rent adjustment mechanism to be employed during such extended term. Such rent determination shall not take into account improvements to

the Premises made by Tenant or on Tenant's behalf at Tenant's sole expense, or any Additional Improvements. If the higher appraisal of rent is not more than one hundred five percent (105%) of the lower appraisal of rent, the average of their appraised values shall be adopted by the parties. If the higher appraisal is greater than one hundred five percent (105%) of the lower, then the two appraisers shall within five (5) days of the initial appraisal determinations appoint a third appraiser who shall make his determination within thirty (30) days of his appointment, and the two closest in dollar terms of the three offered rent determinations shall be averaged and adopted by the parties as the monthly Base Rent during the upcoming extended term. In no event shall the Base Rent determined by the appraisers be less than the then existing monthly Base Rent. In the event the Base Rent so determined is higher than Tenant's highest previously negotiated offer Tenant may elect, by written notice to Landlord within three (3) days after receipt of the appraisers' determination, to terminate this Lease effective as of the date this Lease would have expired but for Tenant's earlier exercise of said option to extend the term, in which event Tenant's earlier exercise of said option shall be deemed rescinded. Tenant shall pay all costs of the appraisers in the event Tenant so elects to rescind its exercise and terminates this Lease.

29.3 RENTAL ADJUSTMENTS DURING EXTENDED TERM. The Base Rent during the first, or if it is the case, the second or third extended term, determined pursuant to Paragraph 29.2 of this Lease shall be adjusted annually throughout such term to reflect any increase in the cost of living during the extended term in the manner specified in Paragraph 3.2 with respect to the initial term. For the purposes of this paragraph, all other definitions set forth in Paragraph 3.2 of this Lease shall apply, except that the term "base" shall mean the last published Index in effect on the first day of the extended term in question.

30. PARKING. Tenant shall have the nonexclusive use of Tenant's Share of the parking spaces in the Outside Areas as designated from time to time by Landlord. Tenant shall not at any time park or permit the parking of Tenant's trucks or other vehicles, or trucks or other vehicles of others, adjacent or loading areas so as to interfere in any way with the use of such areas, nor shall Tenant at any time park or permit the parking of Tenant's vehicles or trucks, or the vehicles or trucks of Tenant's suppliers or others, in any portion of the Outside Areas not designated by Landlord for such use by Tenant. Tenant shall not park or permit to be parked any inoperative vehicles or equipment on any portion of the Outside Areas.

31. REASONABLE CONSENT. Whenever any party's approval or consent is required by this Lease, such consent or approval shall not be unreasonably withheld or delayed.

32. Cure Period.

32.1 CURE BY LANDLORD. Landlord shall not be deemed to be in default in the performance of any obligation required to be performed by it hereunder unless and until it has failed to perform such obligation within the period of time specifically provided herein, or if no period of time has been provided, then within thirty (30) days after receipt of written notice by Tenant to Landlord specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are reasonably required for its performance, then Landlord shall not be deemed to be in default if it shall commence such performance within such thirty (30) day period and thereafter diligently prosecute the same to completion. It is understood that, for purposes of Paragraphs 9.1, 13 and 10.1, the term "omissions", as used therein, shall mean only omissions by Landlord which if not cured with the time period permitted in this Paragraph 32 would result in a default of Landlord hereunder.

32.2 CURE BY TENANT. In the event Landlord is deemed in default with respect to its obligation to repair and maintain the roof of the Building as provided elsewhere in this Lease, Tenant shall be entitled, after written notice to such effect to Landlord, to make such repairs and shall have the right to demand reimbursement by Landlord of the cost thereof, with interest thereon at the rate of ten percent (10%) or the highest rate allowed by law, whichever is less, from the date of the expenditure until repaid. In addition, in the event a condition exists with respect to any portion of the Premises which Landlord is required to repair under the Lease, and such condition is the direct and immediate cause of an emergency situation which presents a clear and present threat to the physical safety of persons on or about the Premises or of property of Tenant or its agents, employees, or contractors located on or about the Premises, then subject to the following, Tenant shall be entitled to make such repairs as are reasonably necessary to reduce such threat to a reasonably acceptable level. As soon as Tenant becomes aware of any such condition, it shall make every reasonable effort to contact Landlord by telephone or in person and inform Landlord of the condition; if upon so informing Landlord of the condition, Landlord elects to correct the condition as soon as Tenant would otherwise be able to correct the condition, then Tenant shall have no right to correct the condition and Landlord shall correct the same. If Tenant is unable to contact Landlord after exhausting reasonable efforts to do so, or does in fact contact Landlord but Landlord does not elect to correct the condition as quickly as Tenant is able to correct the condition, then Tenant shall be entitled to make such repairs and shall have the right to demand reimbursement by Landlord of the cost thereof, with interest thereon at the rate of ten percent (10%) or

the highest rate allowed by law, whichever is less, from the date of the expenditure until repaid.

33. MORTGAGEE PROTECTION. In the event of any default on the part of Landlord, Tenant will give notice by registered or certified mail to any beneficiary of a deed or trust or mortgagee of a mortgage, encumbering the Premises whose address shall have been furnished to Tenant, and before exercising any remedy of Tenant to terminate this Lease, shall allow such beneficiary or mortgagee a reasonable opportunity to cure the default, including time to obtain possession of the Premises by power or sale or judicial foreclosure, if such should prove necessary to effect a cure.

34. General Provisions.

34.1 ENTIRE AGREEMENT. This instrument including the Exhibits attached hereto contains all of the agreements and conditions made between the parties hereto and may not be modified orally or in any manner other than by an agreement in writing signed by all of the parties hereto or their respective successors in interest. Any executed copy of this Lease shall be deemed an original for all purposes.

34.2 TIME. Time is of the essence with respect to the performance of each and every provision of this Lease in which time of performance is a factor. All references to days contained in this Lease shall be deemed to mean calendar days, unless otherwise specifically stated.

34.3 CAPTIONS. The captions and headings of the numbered paragraphs of this Lease are inserted solely for the convenience of the parties hereto, and are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof.

34.4 CALIFORNIA LAW. This Lease shall be construed and interpreted in accordance with the laws of the State of California. The language in all parts of this Lease shall in all cases be construed as a whole according to its fair meaning and not strictly for or against either Landlord or Tenant, and without regard to which party prepared this Lease.

34.5 PARTIAL INVALIDITY. If any provision of this Lease is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remainder of the provisions hereof shall nonetheless continue in full force and effect and shall in no way be affected, impaired, or invalidated thereby.

34.6 NO WARRANTIES. Any agreements, warranties or representations not expressly contained herein shall not bind either Landlord or Tenant, and Landlord and Tenant expressly waive all claims for damages by reason of any statement, representation, warranty, promise or agreement, if any, not expressly contained in this Lease.

34.7 SUCCESSORS AND ASSIGNS. The covenants and conditions herein contained, subject to the provisions as to assignment, shall inure to the benefit of and bind the heirs, executors, administrators, assigns, and any other person or entity succeeding lawfully, and pursuant to the provisions of this Lease, to the rights or obligations of the respective parties hereto.

34.8 RULES AND REGULATIONS. Landlord may from time to time promulgate reasonable rules and regulations for the use, safety, care and cleanliness of the Premises and the Project. Such rules and regulations shall be binding upon Tenant upon delivery of a copy thereof to Tenant, and Tenant shall abide by all such rules and regulations. If there is a conflict between such rules and regulations and any of the provisions of this Lease, the provisions of this Lease shall prevail.

34.9 AUTHORITY. The individuals signing this Lease hereby represent and warrant that they have all necessary power and authority to execute and deliver this Lease on behalf of Landlord and Tenant, respectively.

34.10 MEMORANDUM OF LEASE. This Lease shall not be recorded. Concurrently with execution of this Lease, the parties shall execute and acknowledge a short form memorandum of this Lease in the form attached hereto as EXHIBIT "F". Simultaneously with execution of such memorandum, Tenant shall execute and deliver to Landlord for recordation upon the expiration or sooner termination of this Lease, a quitclaim deed to the Premises, in recordable form, designating Landlord as transferee. Any recordation by Landlord of such quitclaim deed prior to expiration or sooner termination of this Lease shall be deemed a default by Landlord hereunder. In the event Landlord later transfers its interest in the Premises prior to expiration or sooner termination of this Lease, such quitclaim deed shall be relinquished to Tenant and Tenant shall simultaneously execute and deliver to Landlord a new quitclaim deed designating Landlord's successor in interest as the transferee, which quitclaim deed shall again only be recorded upon expiration or sooner termination of this Lease.

34.11 REASONABLE EXPENDITURES. An expenditure by a party, for which such party shall demand reimbursement from the other party, shall be limited to the fair market value of the goods and services involved, shall be reasonably incurred, and

shall be substantiated by documentary evidence available for inspection and review by the other party or its representative during normal business hours.

34.12 AMENDMENTS TO ACCOMMODATE LENDERS. Tenant agrees to execute any amendments required by a lender to enable Landlord to obtain replacement permanent financing so long as Tenant's rights and obligations hereunder are not materially adversely affected and provided such amendments are of the type normally required by such lender for similar loans. Tenant shall not have any obligations under any such agreements unless and until Tenant signs the same.

34.13 MERGER. The voluntary or other surrender of this Lease, or a mutual cancellation thereof, shall not work an automatic merger, but shall, at the sole option of Landlord, either terminate all or any existing subleases or subtenancies, or operate as an assignment to Landlord of any or all of such subleases or subtenancies.

34.14 FORCE MAJEURE. Any prevention of or delay in the performance by a party hereto of its obligations under this Lease caused by inclement weather, labor disputes (including strikes and lockouts), inability to obtain materials or reasonable substitutes therefor, governmental restrictions, regulations, controls, action or inaction, civil commotion, fire or other causes beyond the reasonable control of the party obligated to perform (except financial inability), shall excuse the performance by such party of its obligations hereunder (except the obligation of Tenant to pay rent and other sums hereunder) for a period of one day for each such day of delay.

34.15 EXHIBITS. The following exhibits are hereby made a part of this Lease.

- Exhibit "A" -- Premises
- Exhibit "B" -- Property Description
- Exhibit "C" -- Plans and Specifications for Tenant Improvements
- Exhibit "D" -- Plans and Specifications for Additional Improvements
- Exhibit "E" -- Nondisturbance Agreement
- Exhibit "F" -- Memorandum of Lease

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease on the dates set forth below.

LANDLORD:

FERRARI BROTHERS,  
a California general partnership

By: /s/ illegible  
-----

Its General Partners  
-----

Dated: June 16-1996  
-----

TENANT:

ANALOG DEVICES, INC.,  
a Massachusetts corporation

By: /s/ illegible  
-----

Its Vice Pres., Finance  
-----

Dated: June 7, 1995  
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EXHIBIT "A"  
(SCHEMATIC OF FLOOR PLAN)

Legal Description

All that certain real property situate in the city of Sunnyvale, County of Santa Clara, State of California, described as follows:

That portion of Lots 24 and 25, W.E. Crossman's Subdivision No. 3, as shown on a Map recorded in Book K of Maps, page 95, Records of Santa Clara County, California, being more particularly described as follows:

Beginning at a point on the Southeasterly line of Lot 25, as said Lot is shown on the Map of said Tract, said point being the Southeasterly corner of that certain tract of land described in the Deed to the city and County of San Francisco, recorded in Book 2155, Page 377 of Official Records;

thence along the Southeasterly line of said Lot 25, and the Southeasterly line of Lot 24, as shown upon said Map, S 15 degrees 37 minutes 51 seconds W. 367.21 feet, more or less to the Northeasterly corner of that certain tract of land conveyed to the State of California by Deed recorded in Book 4253, Page 92 of Official Records:

thence along the line of the land so conveyed to the State of California N. 70 degrees 09 minutes 03 seconds W. 263.24 feet;

thence along a tangent curve to the right with a radius of 358.00 feet, through an angle of 85 degrees 36 minutes 48 seconds an arc length of 534.94 feet to the property line common to the lands now or formerly of John Kulm, et ux, and of City and County of San Francisco, a municipal corporation; said point being distant thereon S. 73 degrees 35 minutes 22 seconds E. 133.01 feet from the center line of Fair Oaks Avenue, as said Avenue is shown upon said Map herein referred to:

thence Southeasterly along the Southwesterly line of the land of the City and County of San Francisco, 593.47 feet, more or less to the point of beginning.

Exhibit "B"

PERFORMANCE SEMICONDUCTOR

TENANT IMPROVEMENTS

610 E. Weddell Dr. by 1995 definition

Description:

Office Area Construction (22)

Lobby

Conference Rooms (2)

Restroom/Shower Facility

Support Area (maint.)

Light Manufacturing (Rooms 3) Area

Exterior Storage Rooms (2)

Cafeteria (1242)

Corridor System (1hr)

HVAC Units (6) #1, #2, #3, #4, #8

Ceiling Tile System

Fire Sprinklers Above/Below Ceiling

Floor System Carpet/Tile

Electrical Sub-Panels/Fit-Up

Lighting

Painting

Exhaust Fans

Hot Water Heater

Exhibit "C"

Plan A 610-TI's

PERFORMANCE SEMICONDUCTOR

WAFER MANUFACTURING ADDITIONAL IMPROVEMENTS  
610 E. Weddell Dr. by 1995 definition

Description:

Clean Room Tunnels 1 (15), 2 (11), 3 (11), 4 (10), 5 (12)

Air Handlers/Duct furnace/Cooling coils: #1, #2, #3, #4

Air Showers (3)

Fir Sprinklers Manufacturing and Exhaust Ducting

Exhaust Scrubber #1 and #2/Duct Work

Alarm/Detection System

Emergency Generator System

Vacuum System A/B

Floor System (Mipolam)

Electrical Fit-Up Manufacturing Support Equipment

Lighting

Process Piping Gas (ss) (cu)

Process Piping D.I. (PVDF), AWN Drain Lines (PVC, CPVC)

Process Piping Trench System

External Support Equipment and Tank Farm

Process Chilled Water System, Mixing Manifold, Piping Extension, Electrical Panel

Acid and HF Waste Treatment Equipment/System/Vault

Tunnel #3 Wall System, Temperature/Humidity Control

Exhibit "D"

FAC-AI

RECORDING REQUESTED BY, AND  
WHEN RECORDED RETURN TO:

Lindell Van Dyke, Esq.  
1265 Montecito Avenue  
Mountain View, CA 94043

NON-DISTURBANCE AGREEMENT  
610 Weddell Drive -- Fabrication Facility

THIS NON-DISTURBANCE AGREEMENT (the "Agreement") is made and entered into as of the 16th day of June, 1995, by and among Analog Devices, Inc., a Massachusetts corporation ("Tenant"), FERRARI BROTHERS, a California general partnership ("Landlord"), and COAST FEDERAL BANK, formerly known as Coast Savings and Loan Association, ("Lender"), based on the follows:

A. Landlord and Tenant have executed a lease (the "Lease") dated as of June 16, 1995 covering certain premises therein described (the "Premises") consisting of approximately 27,379 square feet of floor space in an approximately 63,500 square foot building located on that certain parcel of real estate commonly known as 610,620, and 630 Weddell Drive, Sunnyvale, California. A legal description of said parcel is attached hereto and incorporated herein by this reference as Exhibit "A" (said parcel of real estate and the Premises are sometimes collectively referred to herein as the "Property");

B. Landlord has executed a First Deed of Trust (the "Deed of Trust") recorded on May 22, 1985 as Instrument No. 8417024 Book J353, Page 195 et seq. of the Official Records of Santa Clara County, California in favor of Lender, payable upon the terms and conditions described therein;

C. The parties desire to acknowledge that the loan secured by the Deed of Trust shall unconditionally be and remain at all times a lien or charge upon the Property, prior and superior to the Lease and to the leasehold estate created thereby; and

D. The parties hereto desire to assure Tenant's possession and control of the Property under this Lease upon the terms and conditions therein contained.

NOW THEREFORE, for and in consideration of the mutual covenants and promises herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the parties hereto, the parties agree as follows:

AGREEMENT

1. The Lease is and shall be subject and subordinate to the Deed of Trust, and to all renewals, modifications, consolidations, replacements and extensions thereof, and to all future advances made thereunder.

Analog Devices Nondisturbance Agreement  
June 16, 1995

2. Should Lender become the owner of the Property, or should the Property be sold by reason of foreclosure, or other proceedings brought to enforce the Deed of Trust which encumbers the Property, or should the Property be transferred by deed in lieu of foreclosure, or should any portion of the Property be sold under a trustee's sale, the Lease shall continue in full force and effect as a direct lease between the then owner of the Property covered by the Deed of Trust and Tenant, upon, and subject to, all of the terms, covenants and conditions of the Lease for the balance of the term thereof remaining, including any extension therein provided. Tenant does hereby agree to attorn to Lender or to any such owner as its landlord, and Lender hereby agrees that it will accept such attornment.

3. Notwithstanding any other provision of this Agreement, Lender shall not be (a) liable for any previously accrued default of any landlord under the Lease (including Landlord) as of the date Lender forecloses or otherwise takes title to the Property; (b) subject to any offsets or defenses which have accrued prior to the date of foreclosure, unless Tenant shall have delivered to lender written notice of the default which gave rise to such offset or defense and permitted Lender the same right to cure such default as is permitted Landlord under the Lease; (c) bound by any rent or other sums that Tenant may have paid under the Lease more than one month in advance; (d) bound by any amendment or modification of the Lease hereafter made without Lender's prior written consent; (e) responsible for the return of any security deposit delivered to Landlord under the Lease and not subsequently received by Lender.

4. If Lender sends written notice to Tenant to direct its rent payments under the Lease to Lender instead of Landlord, then Tenant agrees to follow the instructions set forth in such written instructions and deliver rent payments to Lender; however, Landlord and Lender agree that Tenant shall be credited under the Lease for any rent payments sent to lender pursuant to such written notice.

5. All notices which may or are required to be sent under this Agreement shall be in writing and shall be sent by first class certified U.S. mail, postage prepaid, return receipt requested, and sent to the party at the address appearing below its signature hereof or such other address as any party shall hereafter inform the other party by written notice given as set forth above. All notices delivered as set forth above shall be deemed effective five (5) days after the posted date of deposit in the U.S. mail.

6. The Deed of Trust shall not cover or encumber and shall not be construed as subjecting in any manner to the lien thereof any of Tenant's trade fixtures, furniture, equipment or other personal property at any time placed or installed in the Premises, or the Additional Improvements (as defined in the Lease).

7. Landlord and Tenant each acknowledges that the other is not in default or breach of any of its obligations under the Lease as of the date hereof.

Analog Devices Nondisturbance Agreement  
June 16, 1995

8. this Non-Disturbance Agreement shall inure to the benefit of and be binding upon the parties hereto, their successors in interest, heirs and assigns and any subsequent owner of the Property secured by the Deed of Trust.

9. Should any action or proceeding be commenced to enforce any of the provisions of this Non-Disturbance Agreement or in connection with its meaning, the prevailing party in such action shall be awarded, in addition to any other relief it may obtain, its reasonable costs and expenses and reasonable attorneys' fees.

IN WITNESS WHEREOF, the parties hereto have caused this Non-Disturbance Agreement to be executed as of the day and year first above written.

LENDER:

COAST FEDERAL BANK,  
a  
-----

By: -----

Name: -----

Title: -----

-----

-----

-----

(address)

TENANT:

Analog Devices Inc.,  
a Massachusetts corporations

By: -----

Its: -----

-----

-----

-----

(address)

Analog Devices Nondisturbance Agreement  
June 16, 1995

LANDLORD:

FERRARI BROTHERS,  
a California general partnership

By:

-----

Ray Ferrari, general partner

1265 Montecito Ave., Suite 200  
Mountain View, CA 94043  
Attn: Ray Ferrari

Analog Devices Nondisturbance Agreement  
June 16, 1995

(Acknowledgement of Lender)

STATE OF CALIFORNIA        )  
                                  )SS.  
COUNTY OF LOS ANGELES    )

On June 16, 1995 before me, Lynda C. Thomas, a Notary Public in and for said County and State, personally appeared Patrick Senske, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed same in his authorized capacity, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

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

Analog Devices Nondisturbance Agreement  
June 16, 1995

RECORDING REQUESTED BY AND  
WHEN RECORDED RETURN TO:

Lindell Van Dyke, Esq.  
10600 N. DeAnza Blvd., Ste 100  
Cupertino, CA 95014

MEMORANDUM OF LEASE

This Memorandum of Lease, dated June , 1995 for reference purposes only, is made and entered into between FERRARI BROTHERS, a California general partnership (hereafter called "Landlord"), and Analog Devices, Inc., a Massachusetts corporation (hereafter called ("Tenant")).

Landlord hereby leases to Tenant certain premises consisting of approximately twenty-seven thousand three hundred seventy-nine (27,379) square feet (the "Premises") within that certain building (the "Building") located at 610 Weddell Drive, Sunnyvale, California. A legal description of the parcel of land on which the Building is situated is attached as Exhibit "A" hereto and incorporated herein by reference. Such lease is governed by the provisions of that certain unrecorded lease between the parties hereto (the "Lease"), dated June , 1995, which provisions are incorporated herein by reference as though written out at length herein. Terms undefined herein shall have the meanings ascribed to them in the Lease.

The term of the Lease shall be the five (5) year period commencing on June , 1995 and ending on March 31, 2000. Tenant shall have three options to extend the term for successive additional periods of five (5) years each on the terms set forth in the Lease.

The purpose of this Memorandum of Lease is to give notice of the existence of the Lease. This Memorandum in no way modifies the Lease or any terms thereof.

EXHIBIT "F"  
F-1

IN WITNESS WHEREOF, the parties hereto have caused this Memorandum of Lease to be executed as of the day and year first above written.

TENANT:

Analog Devices Inc.,  
a Massachusetts corporations

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

Name: \_\_\_\_\_

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

LANDLORD:

FERRARI BROTHERS,  
a California general partnership

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

Name: \_\_\_\_\_

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

Exhibit "F"  
F-2

(Acknowledgement of Landlord)

STATE OF MASSACHUSETTS        )  
  )SS.  
COUNTY OF NORFOLK            )

On June 7, 1995 before me, Janet A. Sweeney, a Notary Public in and for said County and State, personally appeared Joseph E. McDonough, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed same in his authorized capacity, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature:  
-----

Exhibit "F"  
F-3

FIRST AMENDMENT OF LEASE  
(Analog Devices, Inc.)

This First Amendment of Lease (the or this "Agreement") is executed as of March 1, 1996 (the "Effective Date") by and between Ferrari Brothers, a California general partnership, as "Landlord," and Analog Devices, Inc., a Massachusetts corporation, as "Tenant."

RECITALS:

A. Landlord and Tenant have entered into that certain Lease dated June 16, 1995 (the "Lease") respecting premises commonly known as 610 Weddell Drive, Sunnyvale, California and more particularly described in the Lease (the "Premises").

B. The Premises are comprised of approximately 27,379 square feet of space in a larger building (the "Building"). The balance of the space in the Building is leased by Performance Semiconductor Corporation ("PSC").

C. Analog desires to add to the Premises a portion of the space in the Building which is currently leased by PSC. The space that Analog desires to so lease is comprised of approximately 12,404 square feet of space, and is shown and described on Exhibit "A" attached hereto and incorporated herein by this reference (the "Additional Analog Space"). Concurrently with the execution of this Agreement, PSC is entering into an agreement with Landlord to terminate its right to lease the Additional Analog Space so that Landlord can lease the same to Analog.

D. The parties now desire to document the terms upon which Tenant shall lease the Additional Analog Space.

NOW, THEREFORE, in consideration of the mutual covenants set forth below, and for other good and valuable consideration the receipt and adequacy of which are acknowledged, the parties hereby amend the Lease as follows:

AGREEMENT:

1. Undefined Terms. Terms used in this Agreement which are not defined herein shall have the same meaning ascribed to them in the Lease.

2. Expansion of Premises. Effective as of the Effective Date, the Premises are hereby expanded to include the Additional Analog Space. Accordingly, the area of the Premises, as set forth on the Lease Summary, and as specified in Paragraph 1 of the Lease, is hereby deemed increased as of the Effective Date to approximately 39,783 square feet. Exhibit "A" of the Lease is hereby deemed modified such that the premises described thereon shall be deemed to include the space shown as Spaces A, B, and C on Exhibit "A" hereto.

3. Rent. As of the Effective Date, the monthly Base Rent shall be increased by \$13,900.76 (i.e. to a total of \$48,900.76 per month for the entire Premises including the Additional Analog Space).

4. Late Payment Charge and Security Deposit. As of the Effective Date, the amount of the late payment charge specified in Paragraph 3.4 of the Lease shall be increased to \$978.02 (2% of Base Rent). As of the Effective Date, Analog shall increase the

amount of the Certificate of Deposit held by Landlord as a security deposit pursuant to Paragraph 4 of the Lease to \$28,142.13 (i.e. 63.08% of original deposit for entire building of \$44,613.40). Tenant shall effectuate such increase in the security deposit by depositing with Landlord a new Certificate of Deposit in the amount of such increase, or at Tenant's election, by cancellation of the original Certificate of Deposit and deposit with Landlord of a new Certificate of Deposit in such total amount.

5. Tenant's Share. Tenant's Share of the Building, as set forth in the Lease Summary and Paragraph 1 of the Lease, is increased as of the Effective Date to 63.08% (39,783 square feet divided by total of 63,072 square feet = 63.08%). The amount estimated by Landlord pursuant to Paragraph 9.2 of the Lease for the portion of monthly Operating Expenses to be borne by Tenant is hereby increased from \$2,387 to \$3,468.42 (i.e. 39,783 s.f. divided by 27,379 s.f., or 1.453, times old estimate of \$2,387 = \$3,468.42). The reference to 43.4% set forth in Paragraph 10.4 respecting HVAC replacement costs and Major Resurfacing costs is hereby increased to Tenant's Share (i.e. 63.08%), as specified above in this paragraph.

6. Interior Improvements. Landlord shall have no obligation to construct, modify, or repair any improvements in the Additional Analog Space. Analog has thoroughly inspected the Additional Analog Space, and agrees that the same are in good physical condition and that all building systems servicing such space are in good working order and condition. Tenant agrees to take possession of the Additional Analog Space on the Effective Date (or as soon thereafter as Tenant is able to arrange with PSC to take possession of such space) in such physical condition as may then exist. Prior to Tenant's occupancy of the Additional Analog Space, or promptly thereafter, Tenant at no expense to Landlord shall separately meter all utilities serving the Additional Analog Space such that Tenant and PSC are not sharing any meters for space within the Building. Tenant represents to Landlord that in accordance with Paragraph 12 of the Lease, as of the Effective Date, Tenant has already completed the separate metering of all portions of the Premises other than the Additional Analog Space.

7. Memorandum of Lease. The parties shall execute a short form memorandum of this Agreement and such memorandum shall be recorded promptly after the Effective Date.

8. Non-Disturbance Agreement. Landlord shall use reasonable efforts to obtain promptly after the Effective Date an amendment of the Non-disturbance Agreement with Coast Federal Bank in form reasonably satisfactory to Landlord and Tenant.

9. Remainder of Lease Unaffected. Except to the extent modified by this Agreement, the Lease shall remain unchanged. The parties ratify the Lease and agree that the Lease, as modified by this Agreement, shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the first date hereinabove set forth.

LANDLORD:

FERRARI BROTHERS,  
a California general partnership

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

Its \_\_\_\_\_

Dated: \_\_\_\_\_

TENANT:

ANALOG DEVICES, INC.,  
a Massachusetts corporation

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

Its \_\_\_\_\_

Dated: \_\_\_\_\_

## SECOND AMENDMENT OF LEASE

This Second Amendment of Lease (this "Agreement") is executed as of March 21, 2000 (the "Effective Date") by and between Ferrari Brothers, L.P., a California limited partnership, as "Landlord", and Analog Devices, Inc., a Massachusetts corporation, as "Tenant".

## RECITALS:

A. Landlord and Tenant entered into that certain Lease dated June 16, 1995 which was thereafter amended by First Amendment of Lease dated as of March 1, 1996 (as so amended, the "Lease") respecting premises commonly known as 610 Weddell Drive, Sunnyvale, California and more particularly described in the Lease (the "Premises").

B. The Premises are comprised of approximately 39,783 square feet of space in a larger building (the "Building"). The balance of the space in the Building is leased by Performance Semiconductor Corporation ("PSC").

C. Tenant desires to add to the Premises all of the space in the Building which is currently leased by PSC (sometimes referred to herein as the "Additional Analog Space"). Concurrently with the execution of this Agreement, PSC is entering into an agreement with Landlord to terminate its lease of space in the Building so that Landlord can lease the same to Tenant.

D. Tenant has previously exercised its first option to extend the Term of the Lease from April 1, 2000 through March 31, 2005.

E. The parties now desire to document the terms upon which Tenant shall lease the entire Building.

NOW, THEREFORE, in consideration of the mutual covenants set forth below, and for other good and valuable consideration the receipt and adequacy of which are acknowledged, the parties hereby amend the Lease as follows:

## AGREEMENT:

1. Undefined Terms. Terms used in this Agreement which are not defined herein shall have the same meaning ascribed to them in the Lease.

2. Expansion of Premises. Effective as of the Effective Date, the Premises are hereby expanded to include the entire Building. Accordingly, the area of the Premises, as set forth on the Lease Summary, and as specified in Paragraph 1 of the Lease, is hereby deemed increased as of the Effective Date to approximately 63,072 square feet. Exhibit "A" of the Lease is hereby deemed modified such that the premises described thereon shall be deemed to include the entire Building.

In addition the two Storage Units installed by Tenant in the Outside Areas at the rear of the Building located substantially as shown on Exhibit A attached hereto and incorporated herein by this reference (each shown thereon as "New Building") shall be included within the definition

March 7, 2000

of the Premises for all purposes other than the calculation of the Base Rent. With respect to the Storage Units:

(a) Tenant shall use and maintain the Storage Units, and represents to Landlord that it has constructed the same, in strict compliance with all statutes, codes, laws, rules and regulations of lawful governmental authorities applicable thereto;

(b) Tenant shall keep the Storage Units in good and safe condition, order and repair and shall pay all costs associated with the installation, operation and maintenance of the Storage Units;

(c) Tenant shall indemnify, protect, defend and hold harmless Landlord from and against any and all liability, expense, damage or cost (including without limitation attorneys' fees, court costs and expert witness fees) incurred by Landlord or its successors, assigns, employees, contractors or agents arising out of Tenant's installation and use of the Storage Units; and

(d) Prior to expiration of the term of the Lease, or within thirty (30) days after any sooner termination thereof, Tenant at its sole expense shall remove from the Storage Units any Hazardous Materials stored therein and all other personal property or fixtures of Tenant therein and shall remove the Storage Units from the Premises, including without limitation, any foundations underlying the same installed by Tenant or its contractors or agents.

(e) The provisions of clauses (a), (b), (c) and (d) shall in no way reduce or lessen the obligations and liability of Tenant established by Paragraph 7 of the Lease which relates to Hazardous Materials. The provisions of said clauses are intended to be in addition to the provisions of Paragraph 7 of the Lease, and to supplement, not reduce or otherwise modify, such provisions of Paragraph 7 of the Lease.

3. Term. As of the Effective Date the Expiration Date set forth in Paragraph 2 of the Lease is amended to be March 31, 2010. As set forth in Paragraph 29.1 of the Lease, Tenant shall have the right to extend the Term of the Lease for three (3) additional periods of five (5) years each. Tenant's previous exercise of the right to extend the Term of the Lease shall be deemed null and void upon the execution and delivery of this Second Amendment.

4. Rent. As of the Effective Date, the monthly Base Rent shall be increased to a total of \$85,147.20 per month for the entire Premises for the period from the Effective Date through March 31, 2000. Commencing on April 1, 2000 and continuing through March 31, 2001 the monthly Base Rent shall become \$85,147.20, notwithstanding the provisions of paragraph 29.2 of the Lease.

5. Tenant's Share. Tenant's Share of the Building, as set forth in the Lease Summary and Paragraph 1 of the Lease is increased as of the Effective Date to 100%. The words "one-half of" are deleted from the first sentence of Paragraph 9.1 and from the first, second and fourth sentences of Paragraph 9.2 of the Lease. The amount estimated by Landlord pursuant to Paragraph 9.2 of the Lease for the portion of monthly Operating Expenses to be borne by Tenant is hereby increased to \$11,000 based on annual Operating Expenses for the project of \$132,000. The reference to 43.4% set forth in paragraph 10.4 respecting HVAC replacement costs and

Major Resurfacing costs and in paragraph 15.1 respecting deductibles under policies of earthquake insurance is hereby increased to Tenant's Share (i.e. 100%), as specified above in this paragraph.

6. Interior Improvements. Landlord shall have no obligation to construct, modify, or repair any improvements in the Additional Analog Space. Tenant has thoroughly inspected the Additional Analog Space, and agrees that the same are in good physical condition and that all building systems servicing such space are in good working order and condition. Tenant agrees to take possession of the Additional Analog Space on the Effective Date (or as soon thereafter as Tenant is able to arrange with PSC to take possession of such space) in such physical condition as may then exist.

7. Hazardous Materials. Paragraph 7 of the Lease is amended by deleting the third through the seventh grammatical paragraphs and replacing them with the following:

"Tenant, at its sole expense shall comply with all applicable governmental rules, regulations, codes, ordinances, statutes, directives and other requirements (collectively, "Laws") respecting Hazardous Materials in connection with Tenant's activities and the activities of its agents, employees, contractors and invitees on or about the Premises, the Building or the Project. Tenant, at its sole cost, shall perform all investigations, clean-up and other response actions which may be required by any governmental authority in, on, or about the Project, to the extent the same relate to Hazardous Materials the existence of which in, on or about the Project was caused by Tenant or Performance Semiconductor Corporation ("Performance") or their agents, contractors, employees, or invitees. For purposes of this Paragraph 7 and all other provisions of this Lease, any Hazardous Materials existing in, on or about the Project which are of the same type, or which are derivative combinations or products thereof, of any Hazardous Materials or other chemicals or substances which have at any time been used, stored, generated, or released in, at, about or from the Premises by Tenant or by Performance shall be deemed to have been released and caused to exist in, on or about the Project by Tenant unless Tenant demonstrates by a preponderance of the evidence that the existence of such Hazardous Materials was not caused by Tenant or Performance. For purposes of this Paragraph 7, Hazardous Materials located in, on or about the Premises, Building, or Project shall include without limitation Hazardous Materials situated in the groundwater or soil. Notwithstanding the third sentence of this paragraph, to the extent contamination of the groundwater and/or soils underneath the Project, as indicated in any investigation conducted after March 1, 2000 of contamination of Hazardous Materials in the soils and/or groundwater underneath the Project, by the specific Hazardous Materials identified as being present therein in the Baseline Report, hereinafter defined, is less than or equal to (but not greater than) the contamination levels indicated in the Baseline Report, then such Hazardous Materials (i) shall be deemed not to have been released or caused to exist, in or about the Project by Analog Devices, Inc. unless Landlord demonstrates by a preponderance of the evidence that the existence of such Hazardous Materials was caused by Analog Devices, Inc., and (ii) solely for purposes of liability of Analog Devices, Inc. to Landlord under this Paragraph 7 and all other provisions of this Lease, shall be deemed not to have been released or caused to exist in, on or about the Project by Performance. Nothing in clause (ii) of the preceding sentence shall be construed to release Performance from any liability it may have to Landlord under the lease between Performance and Landlord, any amendments thereto, any termination agreement respecting such Performance lease, and any other agreements between Performance and

Landlord. Performance is not a third party beneficiary of this Paragraph 7 or any other provision of this Lease. To the extent contamination of the groundwater and/or soils underneath the Project, as indicated in any investigation conducted after March 1, 2000 of contamination of Hazardous Materials in the soils and/or groundwater underneath the Project, by the specific Hazardous Materials identified as being present therein in the Baseline Report, is greater than the contamination levels indicated in the Baseline Report, then such Hazardous Materials shall be deemed to have been released or caused to exist by Analog Devices, Inc, unless Analog Devices, Inc. demonstrates by a preponderance of the evidence that the existence of such Hazardous Materials was not caused by Analog Devices, Inc. The "Baseline Report" means the report entitled "Phase II Site Investigation Report, Performance Semiconductor Site, 610 East Weddell Drive, Sunnyvale, California" prepared for Analog Devices by Environmental Management Consultants dated May 24, 1995, Project AD1195-023 (a copy of which is attached hereto as Exhibit B and incorporated herein by this reference)

Tenant shall indemnify, protect, defend and hold harmless Landlord from and against all costs (including, but not limited to, environmental response costs and Landlord's attorneys' and experts' fees and costs), expenses, claims, judgments, losses, demands, liabilities, causes of action, governmental directives, proceedings or hearings, relating to the use, handling, generation, storage, transportation, release or disposal of Hazardous Materials by Tenant or Performance or their employees, agents, invitees or contractors on, in, beneath, about or from, the Premises, the Building or the Project, and/or relating to the breach of any of Tenant's obligations under this Paragraph 7. Tenant's obligation to defend shall mean with legal counsel approved by Landlord, which approval shall not unreasonably be withheld or delayed. Without limitation of the foregoing, in the event Tenant or Performance or their employees, agents, invitees or contractors, causes or has caused the presence of Hazardous Materials in, on, or about the Premises, or in the groundwater or land underlying the Premises or the Building, or, in, on, or about any groundwater or land adjacent to, on, in the vicinity of the Premises, Tenant shall indemnify, protect, defend, and hold harmless Landlord from and against the cost of environmental consultants, attorneys, and other consultants as Landlord determines are appropriate to assist Landlord in (1) investigating the source, extent, and composition of such Hazardous Materials, (2) cleaning up or otherwise remediating the same, (3) dealing with any potential or actual liability of Landlord and/or Tenant respecting such Hazardous Materials, and (4) otherwise dealing with such Hazardous Materials. Tenant shall reimburse Landlord for (i) losses in or reductions to rental income resulting from Tenant's or Performance's use, handling, generation, storage, transportation, release or disposal of Hazardous Materials; (ii) all costs of clean-up or other alterations to the Premises, the Building or the Project necessitated by Tenant's or Performance's use, handling, generation, storage, transportation, release or disposal of Hazardous Materials; and (iii) any diminution in the fair market value of the Project caused by Tenant's or Performance's use, handling, generation, storage, transportation, release or disposal of Hazardous Materials.

Tenant shall notify Landlord in writing, immediately upon becoming aware of: (1) any environmental investigation, clean-up or other environmental response action requested, demanded, instituted or to be instituted by any person, including but not limited to a governmental entity, relating to any release or migration of Hazardous Materials on, in, beneath, to or adjacent to the Premises, the Building or the Project; (2) any environmental investigation, cleanup or other environmental response action requested, demanded, instituted or to be

instituted by any person, including a governmental entity, relating to the use, handling, generation, storage, transportation, release or disposal of Hazardous Materials by Tenant, its employees, agents, invitees or contractors on, in, beneath, about or from the Premises, the Building or the Project; (3) any claim or demand made or threatened by any person, including but not limited to a governmental entity, against the Landlord or Tenant, the Premises, the Building or the Project relating to damages, contribution, cost recovery, compensation, loss or injury relating to or claimed to result from any Hazardous Materials that have come to be located on or about the Premises, the Building or the Project; or (4) any data, workplans, proposals or reports submitted to any governmental entity arising out of or in connection with any Hazardous Materials on or about the Premises, the Building or the Project, including but not limited to any complaints, notices, warnings or asserted violations in connection therewith.

Landlord shall have the right, but not the obligation, in its sole discretion, to conduct any inspections of the Premises, the Building and the Project regarding Hazardous Materials on, in, beneath or about same. Landlord shall give Tenant forty-eight (48) hours advance notice of any such inspection, except in the event of an emergency situation. When conducting any such inspections, Landlord shall avoid unreasonably disrupting Tenant's activities. Tenant shall provide Landlord with reasonable cooperation to facilitate any such inspection by Landlord, its agents or representatives.

Under no circumstances shall Tenant install, temporarily or permanently, any underground or below-floor tanks relating to the use, storage or disposal of Hazardous Materials.

Prior to the expiration or termination of this Lease, Tenant shall decontaminate, remove or clean any equipment, improvements or facilities used by Tenant at the Premises, Building or Project in connection with Hazardous Materials, in full compliance with applicable Laws.

To the extent any of the provisions of this Lease conflict with the provisions of Paragraph 7, the provisions of Paragraph 7 shall be controlling. The obligations of Tenant under this Paragraph 7 shall survive the expiration of the Lease term."

8. Tenant's Rights to Purchase. A new Paragraph is inserted into the Lease as follows:

35. Tenant's Rights to Purchase.

35.1 In the event Landlord shall decide to offer the Project (including without limitation the Premises, the Building and the Outside Areas) for sale, Landlord shall first give notice to Tenant of its intention to sell the Project and Tenant shall have the right, for a period of thirty (30) days after Landlord's notice of intention to sell, to notify Landlord of Tenant's interest in purchasing the Project. If Tenant so notifies Landlord and the parties agree on a purchase price, the Project shall be sold by Landlord to Tenant at that price. Landlord shall not offer to sell the Project to a third party without first complying with the above procedures and providing Tenant the opportunity of purchasing the Project.

35.2 Landlord shall not sell the Project to a third party unless (i) Landlord has received a bona fide written offer to purchase the Project, (ii) Landlord has given Tenant a copy of the offer together with (I) indication that Landlord is willing to accept the offer and (2) an

offer by Landlord to Tenant to sell the Project on the same terms and conditions set forth in the offer, and (iii) Tenant shall not have agreed within sixty (60) days after Tenant's receipt of the notice and offer to purchase the Project in accordance with the offer. In the event Tenant agrees to purchase the Project, Tenant shall comply with all the terms and conditions of the offer, except that in no event shall Tenant be required to pay the consideration or complete the purchase in less than one hundred twenty (120) days from the date of Landlord's notice and offer. In the event Tenant shall not have agreed to purchase the Project within the time specified above, Landlord shall have the right to sell the Project to any third party in accordance with the terms and conditions set forth in the offer.

9. Memorandum of Lease. The parties shall execute a short form memorandum of this Agreement and such memorandum shall be recorded promptly after the Effective Date.

10. Non-Disturbance Agreement. Landlord shall use reasonable efforts to obtain promptly after the Effective Date an amendment of the Non-disturbance Agreement with Bank United in form reasonably satisfactory to Landlord and Tenant.

11. Remainder of Lease Unaffected. Except to the extent modified by this Agreement, the Lease shall remain unchanged. The parties ratify the Lease and agree that the Lease, as modified by this Agreement, shall remain in full force and effect.

12. Landlord Not in Default. Tenant confirms to Landlord that Landlord is not in default or breach of any of its obligations under the Lease, and that Tenant is not aware of any failure to perform Landlord obligations which, with notice and/or the passage of time, would become a default or breach under the Lease.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the first date hereinabove set forth.

LANDLORD:

FERRARI BROTHERS, L.P., a California limited partnership

By: Portofino Management Company, LLC  
A California limited liability company,  
Its general partner

By: /s/ Ray Ferrari

-----  
Ray Ferrari, Member

By: /s/ Larry Ferrari

-----  
Larry Ferrari, Member

TENANT:

ANALOG DEVICES, INC.  
a Massachusetts corporation

By: /s/ William A. Martin

-----  
Name:  
Its Treasurer

MARCH 7, 2000

-7-

Exhibit A

[BUILDING BLUE PRINTS OMITTED]

LEASE

DATED: FEBRUARY 8, 1996

MASSACHUSETTS INSTITUTE OF TECHNOLOGY, LESSOR

ANALOG DEVICES, INC., LESSEE

21 OSBORN STREET, CAMBRIDGE, MASSACHUSETTS

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LEASE

Dated: February 8, 1996

1.0 Parties and Premises.

- 1.1 PARTIES AND PREMISES. MASSACHUSETTS INSTITUTE OF TECHNOLOGY ("Lessor") hereby LEASES unto ANALOG DEVICES, INC. ("Lessee"), the following premises:

The entire basement, first and second floors, containing 68,135 square feet of rentable area (the "Premises") of the building known as and numbered 21 Osborn Street, Cambridge, Massachusetts, containing a total of 117,130 rentable square feet (the "Building"), which is located on the parcel of land described on EXHIBIT A attached hereto (the "Land"),

together with the benefit of, and subject to (as the case may be) all rights, easements, covenants, conditions, encumbrances, encroachments and restrictions of record as of the date of this Lease. Lessor shall have the right, without the necessity of obtaining Lessee's consent thereto or joinder therein, to grant, permit, or enter into during the term of this Lease such additional rights, easements, covenants, conditions, encumbrances, encroachments and restrictions with respect to the Land as Lessor may deem appropriate, PROVIDED THAT no such rights, easements, covenants, conditions, encumbrances, encroachments or restrictions shall materially affect Lessee's use of the Premises for the "Permitted Uses" (as defined in Section 4.0 below).

Lessor hereby reserves the right to use the first floor lobby and service and freight elevators in the Building in common with the Lessee and the right to pass through the Premises as reasonably necessary for access to such elevators in accordance with Section 15 below.

Lessor hereby further reserves the right to maintain, use, repair and replace pipes, ducts, wires, meters and any other equipment, machinery, apparatus and fixtures located within the Premises and serving other parts of the Building. Lessee, its employees and invitees shall have access to the Premises at all times, subject to Lessor's reasonable security procedures.

- 1.2 COMMON AREAS. Lessor also grants to Lessee, and Lessee's invitees, the right, in common with others

entitled thereto, to use for the purposes for which they were designed, the common facilities of the Building, including but not limited to, all entrances, elevator foyers, air shafts, elevator shafts and elevators, stairwells and stairs, passenger elevators, freight elevator, loading bays, and the "Parking Area" (as defined in Section 9.0 below) (collectively, the "Common Areas"). Lessee shall also have the right to maintain gas storage tanks and associated piping outside the Building on the Land for gas to be delivered to the Premises, in compliance with the terms and conditions set forth in this Lease.

- 1.3 LESSEE'S OPTION TO LEASE ADDITIONAL SPACE. Provided that both (i) an "Event of Default" (as defined in Section 13.1 below) has not occurred prior to the day on which Lessee purports to exercise the Expansion Option or prior to the first date on which the Expansion Space will be occupied, and (ii) the Lessee named herein is actually occupying substantially the entire Premises as of each of such dates, Lessee shall have the right and option ("Expansion Option") to lease either the entire third floor or the entire third and fourth floors of the Building ("Expansion Space"); PROVIDED THAT Lessee's occupancy and obligation to pay Rent therefor must commence, if at all, during the first year of the Initial Term. This option may be exercised by the Lessee by notice thereof to Lessor, dispatched not less than sixty (60) days prior to the date on which Lessee will take occupancy of the additional space, and upon the exercise of this option, the Premises shall include such space. Except for the change in Basic Rent as described in Section 3.2 below, all of the terms and conditions of this agreement shall apply in respect to the additional space. The parties agree that the third floor contains 24,030 square feet of rentable space and that the fourth floor contains 24,965 square feet of rentable space.
- 1.4 LESSEE'S RIGHT OF FIRST REFUSAL. Notwithstanding the failure of the Lessee to exercise its option under Section 1.3, if, during the Term, Lessor decides to occupy the third and/or fourth floors of the Building or to offer the space to a third party, Lessee shall have a right of first refusal to lease either the entire third floor or the entire third and fourth floors of the Building for the Rent per Lease Year or portion thereof which would have been due and payable for such space and subject to the same conditions and on the same terms and conditions as if the option had been exercised.
- 1.5 SIGNS. Lessee shall have the right to maintain one or more signs on the Premises; PROVIDED THAT all signs

shall comply with applicable Legal Requirements (as defined below) and shall have been approved by Lessor in advance which approval shall not be unreasonably withheld or delayed.

2.0 Term; Commencement Date; Extension Options.

2.1 TERM; COMMENCEMENT DATE. The initial term of this Lease (the "Initial Term") shall commence on February 13, 1996, the "Commencement Date," and expire on the day immediately preceding the fifth anniversary thereof, unless sooner terminated as hereinafter provided. For purposes of this Lease, the phrase "Term" shall mean collectively (a) the Initial Term, and (b) if Lessee duly exercises one or more "Extension Option(s)", the "Extension Term" (as these phrases are defined in Section 2.2 below).

2.2 EXTENSION OPTIONS. Provided that both (i) an "Event of Default" (as defined in Section 13.1 below) has not occurred prior to the day on which Lessee purports to exercise the Extension Option or prior to the first day of the Extension Term, and (ii) the Lessee named herein is actually occupying substantially the entire Premises as of each of said dates, Lessee shall have the option ("Extension Option") to extend the Lease Term of this Lease for two additional periods of five (5) years each (the "Extension Term(s)"), unless sooner terminated as hereinafter provided, subject to all the terms of this Lease except for the change in Basic Rent as provided in Section 3.2 of this Lease.

Lessee shall exercise an Extension Option, if at all, by giving written notice of exercise to Lessor not earlier than twelve (12) months prior to, nor later than six (6) months prior to, the last day of the Initial Lease Term or the first Extension Term as applicable. If Lessee fails to give such notice to Lessor within such time, Lessee shall be deemed to have waived the right to exercise the applicable Extension Option.

3.0 Rent.

3.1 PAYMENT OF RENT. Lessee shall pay Lessor, without offset or deduction and without previous demand therefor, as items constituting rent (collectively, "Rent"):

(a) Basic rent ("Basic Rent") at the rate hereinafter set forth, in equal monthly installments, in advance, commencing three months after the Commencement Date (the "Rent Commencement Date") and continuing thereafter on the first day of each

calendar month or portion thereof during the Term. Basic Rent shall be PRO-RATED for partial months occurring at the beginning or the end of the Term, and, with respect to the Additional Space, for any partial Lease Year at the beginning of the Term; and

- (b) All other costs, charges, or expenses which Lessee in this Lease agrees to pay, or which Lessor pays or incurs as the result of a default by Lessee hereunder, including any penalty or interest which may be added for nonpayment or late payment thereof as provided in this Lease (collectively, "Additional Rent"). All recurring payments of Additional Rent, such as payment on account of "Operating Expenses" (as such term is hereinafter defined), shall be due and payable on the same day on which Basic Rent is due, except that "Taxes" (as such term is hereinafter defined) shall be due and payable in installments not later than ten (10) days before Lessor is obliged to make installment payments to the City of Cambridge without incurring interest and penalties but not sooner than ten (10) days after receipt by Lessee of written demand therefor from Lessor accompanied by a copy of the current tax bill. Unless otherwise specifically provided in this Lease, all non-recurring items constituting Additional Rent shall be due and payable within thirty (30) days after demand therefor by Lessor.

All payments shall be made to Lessor or such agent, and at such place, as Lessor shall, from time to time, in writing designate, the following being now so designated:

Meredith & Grew Inc. as agent for  
Massachusetts Institute of Technology  
160 Federal Street  
Boston, MA 02110-1710

- 3.2 COMPUTATION OF BASIC RENT. Basic Rent shall be due and payable hereunder during the Initial Term and any Extension Term in the amount of \$1,000,008 per Lease Year, in installments of \$83,334 per month, except that Basic Rent for the first Lease Year shall be \$750,006 because of the three month rent free period at the beginning of the Initial Term; PROVIDED THAT, if Lessee exercises its option to lease additional space (the "Additional Space") under Section 1.3 or its right of first refusal therefor under Section 1.4, Basic Rent shall be increased by \$240,300 per Lease Year if exercised with respect to the third floor only or by

\$489,950 per Lease Year if exercised with respect to both the third and fourth floors, commencing on the date of occupancy and subject to adjustment during any Extension Term as follows:

for each Extension Term annual Basic Rent applicable to the Additional Space shall be adjusted at the commencement date as follows:

(i) The index used for calculation of any adjustment shall be the official Consumer's Price Index, Boston Area, all items, (1982-1984 = 100) published by the Bureau of Labor Statistics, U.S. Department of Labor, or its successor index should the Department of Labor cease publishing the CPI.

(ii) Annual Basic Rent applicable to the Additional Space for each Extension Term shall be the annual Basic Rent therefor for the preceding five years of the Term plus an additional amount as determined in paragraph (iii).

(iii) The index for the month of November immediately preceding the termination of the Initial Term or the First Commencement Term as applicable shall be compared to the index for the same month immediately preceding the commencement of such five year term. The numerator shall be the index for the later year and the denominator shall be the index for the earlier year. The result shall be multiplied by the current annual Basic Rent for the Additional Space to determine the new annual Basic Rent therefor.

As used in this Lease, "Lease Year" means the twelve (12) month period commencing on the Commencement Date, or a successive twelve (12) month period included in the Term commencing on an anniversary of that day, but if the expiration of the Term or the earlier termination of the Lease does not coincide with the termination of such a twelve (12) month period, the term "Lease Year" shall mean the portion of such twelve (12) month period before such expiration or termination.

4.0 PERMITTED USES. The Premises shall be used for the following purposes (the "Permitted Uses") only and for no other:

light manufacturing (including, without limitation, manufacturing, processing, assembly and packaging of electronic components), research and development and

office uses; in each case to the extent permitted as a matter of right under the zoning ordinance of the City of Cambridge, Massachusetts.

5.0 Taxes; Operating Expenses.

5.1 TAXES. Lessee shall pay as Additional Rent its pro rata share of all taxes, special or general assessments and other impositions and charges imposed by governmental authorities of every kind and nature whatsoever, extraordinary as well as ordinary and each and every installment thereof which shall or may during the Term be charged, levied, laid, assessed, imposed, become due and payable or become liens upon or for or with respect to the Land or any part thereof and the Building or the Premises, or appurtenances or equipment owned by Lessor thereon or therein or any part thereof, or on this Lease, and any tax based on a percentage, fraction or capitalized value of the Rent (whether in lieu of or in addition to the taxes hereinbefore described) (collectively, "Taxes"); provided however that:

- (a) if, by law, any Taxes may at the option of the taxpayer be paid in installments, Lessee may pay the same in such installments over such period as the law allows, and Lessee shall only be liable for such installments as shall become due during the Term of this Lease, PROVIDED THAT the full amount of all Taxes attributable to the Term shall be paid by Lessee in the event of an earlier termination of this Lease due to a default of Lessee; and
- (b) all Taxes for the municipal fiscal years in which the Term of this Lease shall begin and end shall be apportioned so that Lessee shall pay only those portions thereof which correspond with the portion of said year as is within the Term hereby demised.

Taxes shall not include inheritance, estate, excise, succession, transfer, gift, franchise, income, gross receipt, or profit taxes except to the extent such are in lieu of or in substitution for Taxes as now imposed on the Building, the Land, the Premises or this Lease. Lessee's share of Taxes shall be computed as follows: (i) with respect to the Building and the land under the Building, a percentage equal to the ratio of the number of rentable square feet occupied by the Tenant in the Building to the number of rentable square feet in the Building; and (ii) with respect to the remainder of the Land, a percentage equal to the ratio of the number of parking spaces allocated to the Premises under Section 9 to the aggregate number of parking spaces on the Premises. The parties hereby agree that rentable square

feet for the Premises, the Building and the third and fourth floors of the Building are as set forth in Sections 1.1 and 1.3 above. If Lessee takes occupancy of Additional Space under its option or right of first refusal set forth in Section 1.3 and Section 1.4 during the course of any year of the Term, Taxes for such year shall be determined separately for each partial year before and after the date of occupancy.

5.2 OPERATING EXPENSES. Lessee shall pay as Additional Rent Lessee's share as reasonably determined by the Lessor of all expenses, costs, and disbursements of every kind and nature (collectively, "Operating Expenses") which Lessor shall pay or become obligated to pay in connection with the ownership, operation and maintenance of the Building or the Land, including all facilities in operation on the Commencement Date and such additional facilities in subsequent years as may be determined by Lessor to be necessary or beneficial for the operation of the Building or the Land or the provision of services to lessees, including, but not limited to:

- (a) all salaries, wages, fringe benefits, payroll taxes and workmen's compensation insurance premiums related thereto of and for employees engaged in the operation of the Building and the Land (with respect to employees who are engaged in the operation of other properties as well as the Building and the Land, these amounts shall be pro-rated on the basis of the relative amount of time spent by such employees on the various properties);
- (b) painting, repairs, maintenance and cleaning of all Common Areas;
- (c) utilities (including, without limitation, electricity, steam, water, sewer and gas) for all interior Common Areas and lighting of exterior areas and the "Parking Area" (as defined in Section 9.0 below);
- (d) maintenance and repair of the Building heating and cooling systems, the plumbing systems, the fire detection and suppression systems, the electrical system and the elevators;
- (e) all maintenance, janitorial, and service agreements;
- (f) all insurance, including the cost of casualty and liability insurance applicable to the Parking Area, the Land, the Building and Lessor's personal

property used in connection therewith, including the amount of any reasonable deductible payable by Lessor in making repairs and restoration after a casualty;

- (g) maintenance of landscaped areas and paved areas, and snow removal;
- (h) maintenance of the Building security system;
- (i) management fees, PROVIDED THAT such fees are paid at rates which are competitive with those commonly charged for the management of comparable properties in Cambridge, Massachusetts;
- (j) capital items which are for the purpose of reducing Operating Expenses or upgrading services or which are at any time required by a governmental authority or the provisions of any insurance policy which is first adopted or first becomes applicable to the Premises, the Building or the Land after the date of this Lease, amortized over the reasonable life of the capital items on a straight line basis with the reasonable life being determined by Lessor in accordance with generally accepted accounting principles;
- (k) reasonable expenses incurred in pursuing an application for an abatement of Taxes pursuant to Section 5.4 below to the extent not deducted from the abatement, if any, received; and
- (l) legal (excluding legal fees with respect to lease negotiations and enforcement of lease terms against other lessees), accounting and other professional fees and disbursements (excluding leasing commissions).

For so long as Lessee is the sole occupant of the Building, Lessee shall be responsible for one hundred percent (100%) of Operating Expenses.

- 5.3 PAYMENT OF TAXES AND OPERATING EXPENSES. Within a reasonable time after the Commencement Date, and thereafter within a reasonable time after the end of each fiscal year of the Lessor (or portion thereof) included in the Term, Lessor shall deliver to Lessee (i) a statement of actual Operating Expenses and Taxes for the fiscal year just ended, together with reasonable supporting documentation therefor, and (ii) a budget of Operating Expenses and Taxes for the then-current fiscal year based on the actual Operating Expenses and Taxes for the preceding year and projected increases or

decreases reasonably anticipated by Lessor. Commencing on the first day of the first calendar month after the delivery to Lessee of such budget, Lessee shall pay to Lessor, as Additional Rent, on account of its share of anticipated Operating Expenses for the then-current year, 1/12th of the total annualized amount of Lessee's share of Operating Expenses and shall pay to Lessor, as and when set forth in Section 3.1, the appropriate percentage of Taxes. Lessor reserves the right to revise the budget during any fiscal year to cause it to more accurately reflect the actual Taxes or Operating Expenses being paid or incurred by Lessor, and upon any such revision the parties shall make adjustments in the same time and manner as hereinafter provided for fiscal year-end adjustments. Upon delivery to Lessee of the statement of actual Operating Expenses and Taxes for the preceding fiscal year, Lessor shall adjust Lessee's account accordingly. If the total amount paid by Lessee on account of the preceding fiscal year is less than the amount due hereunder, Lessee shall pay the balance due within twenty (20) days after delivery by Lessor of such statement. If the total amount paid by Lessee on account of the preceding fiscal year exceeds the amount due hereunder, such excess shall be credited by Lessor against the monthly installments of Additional Rent next falling due or refunded to Lessee upon the expiration or termination of this Lease (unless such expiration or termination is the result of an "Event of Default" (as defined in Section 13.1 below)). Lessor's current fiscal year is July 1 - June 30, but Lessor reserves the right to change the fiscal year at any time during the Term.

- 5.4 ABATEMENT OF TAXES. Lessor or Lessee may at any time and from time to time make application to the appropriate governmental authority for an abatement of Taxes. If such an application is successful, Lessor shall (a) deduct from the amount of the abatement all expenses incurred by it in connection with the application, (b) pay to Lessee Lessee's pro rata share of the abatement, with interest, if any, paid by the governmental authority on such share, and (c) retain the balance, if any; PROVIDED THAT, if Lessee made the application for such abatement, Lessor shall pay to Lessee out of the proceeds thereof Lessee's reasonable expenses incurred in connection with the application before making the payment to Lessee described in clause (b) of this Section or before Lessor retains the amount described in clause (c) of this Section. Lessor agrees to cooperate with Lessee in connection with an application for an abatement of Taxes hereunder by Lessee at no expense to the Lessor.

6.0 METERS FOR UTILITIES. Lessor reserves the right to install meters for all utilities provided to the Premises, at its own expense, and charge Lessee for Lessee's actual use of metered services as Additional Rent.

7.0 Insurance

7.1 PUBLIC LIABILITY INSURANCE. Lessee shall take out and maintain in force throughout the Term (and for so long thereafter as Lessee remains in occupancy) comprehensive public liability insurance naming Lessor and persons claiming by, through or under Lessor as additional insureds, against all claims and demands for any injury to persons or property which may be claimed to have occurred on the Premises, the Building, the Land or on the ways adjoining the Land, in an amount which at the beginning of the Term shall not be less than \$1,000,000 for personal injury or death or property damage per occurrence, and \$3,000,000 in the aggregate for personal injury or death or property damage, or such higher amounts as Lessor thereafter determines to be consistent with sound commercial practice in Cambridge. Such policy shall also include contractual liability coverage covering Lessee's liability assumed under this Lease.

7.2 CASUALTY INSURANCE. (a) Lessee shall be responsible to provide its own coverage during the Lease Term for fire, vandalism, malicious mischief, extended coverage and so-called all risk coverage insurance insuring (i) all items or components of "Alterations" (as defined in Section 11.0(f) below) which Lessee is by this Lease either entitled to or required to remove upon the expiration or earlier termination of this Lease, and (ii) "Lessee's Property" (as defined in Section 11.0(h) below). Lessor shall not carry any insurance concurrent in coverage and contributing in the event of loss with any insurance required to be furnished by Lessee hereunder if the effect of such separate insurance would be to reduce the protection or the payment to be made under Lessee's insurance.

(b) During any construction or alteration of the Building by the Lessee, Lessee shall keep in full force and effect all risk builder's risk insurance against loss or damage on a completed value non-reporting basis from such hazards and in such amounts as Lessor may reasonably require.

7.3 CERTIFICATE OF INSURANCE. The insurance required by Sections 7.1 and 7.2 above shall be placed with insurers reasonably satisfactory to Lessor and authorized to do business in Massachusetts. Such insurance shall provide

that it shall not be amended or canceled with respect to the additional insureds or certificate holders without twenty (20) days' prior written notice to each of them. Lessee shall furnish to Lessor certificates of insurance for all insurance required to be maintained by Lessee under this Lease, together with evidence satisfactory to Lessor of the payment of all premiums for such policies. Lessee, at Lessor's request, shall also deliver such certificates and evidence of payment of premiums to the holder of any mortgage affecting the Land and Building.

- 7.4 LESSOR'S INSURANCE. Lessor shall take out and maintain in force throughout the Term, in a company or companies authorized to do business in Massachusetts, casualty insurance on the Building (exclusive of "Lessee's Property" (as defined in Section 11.0(h) below) and all "Alterations" (as defined in Section 11.0(f) below) which Lessee is by this Lease either entitled to or required to remove upon the expiration or earlier termination of this Lease, as to which Lessee is required to maintain insurance pursuant to Section 7.2 above) in an amount equal to the full replacement value of the Building (exclusive of foundations and those items set forth in the preceding parenthetical in this sentence), covering all risks of direct physical loss or damage and so-called "extended coverage" risks. This insurance may be maintained in the form of a blanket policy covering the Building as well as other properties owned by Lessor. Notwithstanding the foregoing provisions of this Section 7.4, Lessor shall have the right, at any time during the Term, to self-insure all or any portion of the coverages required by this Section.
- 7.5 WAIVER OF SUBROGATION. To the extent to which a waiver of subrogation clause is available, Lessor and Lessee shall obtain a provision in all insurance policies carried by such party covering the Premises, including but not limited to contents, fire and casualty insurance, expressly waiving any right on the part of the insurer against the other party. If extra cost is chargeable for such provision, then Lessee shall pay such extra charge. Notwithstanding the foregoing, with respect to such portion of the Term during which Lessor elects to self-insure under Section 7.4 above, then for purposes of this Section 7.5, Lessor shall be deemed to have maintained fire and all-risk coverage in an amount equal to one hundred (100%) percent of the insurable value of the Building (subject to the exceptions and exclusions set forth in Section 7.4 above) with a waiver of subrogation clause contained therein.

7.6 WAIVER OF RIGHTS. All claims, causes of action and rights of recovery for any damage to or destruction of persons, property or business which shall occur on or about the Premises, the Building or the Land, which result from any of the perils insured under any and all policies of insurance maintained by Lessor or Lessee, are waived by each party as against the other party, and the officers, directors, employees, contractors, servants and agents thereof, regardless of cause, including the negligence of the other party and its respective officers, directors, employees, contractors, servants and agents, but only to the extent of recovery, if any, under such policy or policies of insurance; PROVIDED, HOWEVER, that (i) this waiver shall be null and void to the extent that any such insurance shall be invalidated by reason of this waiver, and (ii) with respect to such portion of the Term during which Lessor elects to self-insure under Section 7.4 above, then for purposes of this Section 7.6, Lessor shall be deemed to have maintained fire and all-risk coverage in an amount equal to one hundred (100%) percent of the insurable value of the Building (subject to the exceptions and exclusions set forth in Section 7.4 above).

8.0 ASSIGNMENT AND SUBLETTING. (a) Lessee shall not mortgage, pledge, hypothecate, grant a security interest in, or otherwise encumber this Lease or any sublease hereinafter entered into by Lessee, or assign this Lease, or sublease the Premises or any portion thereof (the term "sublease" shall be deemed to include any arrangement pursuant to which a third party is permitted by Lessee to occupy all or any portion of the Premises), without obtaining, on each occasion, the prior written consent of Lessor. Lessor agrees not to unreasonably withhold or delay its consent to any request to assign or sublet the Lessee interest hereunder.

(b) If Lessee wishes to assign this Lease or sublease all or any portion of the Premises, Lessee shall so notify Lessor in writing and request Lessor's consent thereto. Such notice shall include (i) the name of the proposed assignee or sublessee, (ii) a general description of the types of business conducted by the proposed assignee or sublessee and a reasonably detailed description of the business operations proposed to be conducted in the Premises by such person or entity, (iii) such financial information concerning the proposed assignee or sublessee as Lessor may reasonably require, and (iv) all terms and provisions upon which such assignment or sublease is proposed to be made. Lessor shall have thirty (30) days from the day on which it receives Lessee's notice and such required information to give notice to Lessee that either (i) Lessor consents to such assignment or sublease, or (ii) Lessor withholds its consent to such assignment or sublease, or (iii) where applicable, Lessor is

exercising its right of recapture pursuant to paragraph (e) below.

(c) If Lessor consents to an assignment or sublease: (i) Lessee shall promptly deliver to Lessor a fully executed copy of said assignment or sublease; (ii) after any such assignment or sublease, Lessee shall remain primarily liable to Lessor hereunder (which liability shall be joint and several with the assignee or sublessee); and (iii) if the aggregate rent and other amounts payable to Lessee under or in connection with such assignment or sublease, after deduction of the costs reasonably incurred by Lessee in entering into such assignment or sublease (including, without limitation, reasonable attorneys' fees and expenses, brokerage commissions, and alteration costs amortized on a straight-line basis over the term of such sublease or, in the case of an assignment, over the remaining Term of this Lease), exceeds the Rent payable hereunder with respect to the portion of the Premises subject to such sublease (or, in the case of an assignment, the entire Premises), Lessee shall pay to Lessor, as Additional Rent, one-half (1/2) of such excess immediately upon receipt thereof by Lessee.

(d) If Lessor withholds its consent to such assignment or sublease, Lessee shall not enter into the proposed assignment or sublease with such person or entity.

(e) If Lessor elects, it shall have the right to consider Lessee's request for Lessor's consent to any assignment of the Lease, or a request for Lessor's consent to a sublease which either (i) has a proposed term (including extension options) of two years or more, or (ii) would cover twenty-five (25%) percent of the rentable area of the Premises or more, as an offer to Lessor to release from this Lease that portion of the Premises which is proposed to be the subject of such sublease for the term of such proposed sublease or, in the case of a proposed assignment of this Lease, the entire Premises for the entire Lease Term. If Lessor accepts such offer, then (i) in the case of a proposed sublease, this Lease shall be deemed to be amended as of the proposed effective date of such sublease so as to delete the portion of the Premises which would have been subject thereto from the Premises for purposes of this Lease (with a commensurate adjustment in Rent and Lessee's share of Taxes and Operating Expenses) for the time period of what would have been the term of such sublease, or (ii) in the case of a proposed assignment, this Lease shall terminate as of the proposed effective date of such assignment as if such date was the last day of the Term.

(f) Regardless of whether Lessor grants such consent, Lessee shall reimburse Lessor on demand, as Additional Rent, for all

out of pocket costs and expenses (including, without limitation, attorneys' fees) reasonably incurred by Lessor in responding to a request for such consent.

(g) Lessee shall not be entitled to enter into any assignment or sublease, or to request Lessor's consent thereto, during the continuance of a default hereunder by Lessee.

(h) Any assignment or sublease entered into pursuant to this Section 8.0 shall be subject to all of the terms and provisions of this Lease, including without limitation this Section 8.0. If Lessee enters into any such assignment or sublease, Lessor may, at any time and from time to time after the occurrence of a default hereunder, collect rent from such assignee or sublessee, and apply the net amount collected against Lessee's obligations hereunder, but no such assignment or sublease or collection shall be deemed an acceptance by Lessor of such assignee or sublessee as a lessee hereunder or as a release of the original named Lessee hereunder.

(i) Notwithstanding anything contained in this Lease, Lessee shall not enter into any assignment or sublease with any person or entity if the identity of the assignee or sublessee is inconsistent with the investment policies of Lessor as set forth in writing by the Executive Committee of Lessor prior to its receipt of Lessee's notice of such proposed assignment or sublease, and any such transaction shall be void AB INITIO.

(j) In the event that Lessee desires to assign this Lease or to sublease the Premises (or any portion thereof) to any corporation, partnership, association or other business organization directly or indirectly controlling or controlled by Lessee or under common control with Lessee, or to any successor by merger, consolidation or purchase of all or substantially all of the assets of Lessee, Lessee shall give at least twenty (20) days' prior written notice thereof to Lessor (unless Lessee is prohibited by applicable laws, codes, rules or regulations, or by the terms of the operative merger agreement or purchase and sale agreement from providing notice to Lessor at such time, in which event such notice shall be provided to Lessor as soon as Lessee is no longer subject to such prohibition). No consent of Lessor shall be required for any such assignment or sublease EXCEPT that Lessor shall have the right to withhold its consent if the identity of the assignee or sublessee is inconsistent with the investment policies identified in the foregoing paragraph (i) of this Section. Any assignee or sublessee which claims an interest in this Lease pursuant to a transfer of the type described in this paragraph (j) shall be bound by all of the terms and conditions of this Lease including, without limitation, those of the foregoing paragraph (i) of

this Section, and if the identity of such assignee or successor is inconsistent with such investment policies, Lessor shall have the right to terminate this Lease and to exercise against such assignee or sublessee the remedies available to Lessor under this Lease, at law or in equity for a breach of the provisions hereof by Lessee. For the purpose of this Lease, the sale of Lessee's capital stock through any public exchange shall not be deemed an assignment or sublease of the Lease or of the Premises.

(k) Notwithstanding anything contained in this Lease, Lessee shall not, either voluntarily or by operation of law, make any transfer of this Lease or the Premises (or any portion thereof) which results in Lessee (or anyone claiming by, through or under Lessee) collecting in connection with the Premises any rental or other charge based on the net income or on the profits of any person so as to render any part of the Rent due hereunder "unrelated business taxable income" of Lessor as described in Section 512 of the Internal Revenue Code of 1986, as amended, and any such transfer shall be void AB INITIO.

9.0 PARKING. Lessee shall have the right to use 100 parking spaces in the parking area on the Land (the "Parking Area") to serve the Premises. The remaining parking spaces on the Land shall be divided equally to serve the third and fourth floors of the Building. If Lessee exercises its option or right of first refusal with respect to one or both of the third and fourth floors under Sections 1.3 or 1.4, Lessee will thereby acquire the right to use the corresponding number of additional parking spaces. While Lessee is constructing its initial build out, Lessor will, if necessary, make additional spaces available to Lessee to accommodate construction personnel and their vehicles.

10.0 LATE PAYMENT OF RENT. Lessee agrees that in the event that any payment of Basic Rent or Additional Rent shall remain unpaid at the close of business on the tenth business day after the same is due and payable hereunder (without reliance on any applicable grace period), such payment shall bear interest from the date the same was due at a rate equal to the "Prime Rate" as published from time to time in THE WALL STREET JOURNAL while such payment is overdue PLUS four (4%) percent, which shall be due and payable by Lessee as Additional Rent as compensation for Lessor's extra administrative costs in investigating the circumstances of late Rent. The assessment or collection of such a charge shall not be deemed to be a waiver by Lessor of any default by Lessee arising out of such failure to pay Rent when due.

11.0 LESSEE'S COVENANTS. Lessee covenants, at its sole cost and expense, during the Term and such further time as Lessee occupies any part of the Premises:

- (a) to pay when due the Basic Rent and all Additional Rent, and, if separately metered at any time during the Term, all charges for electricity and other utilities;
- (b) damage by fire or casualty and reasonable wear and tear only excepted, to keep the Premises (including window glass) in as good order, repair and condition as the same are in at the commencement of the Term, or may be put in thereafter;
- (c) not to injure, overload or deface the Premises or the Building, nor to suffer or commit any waste therein, nor to place a load upon any floor which exceeds the floor load which the floor was designed to carry, nor to connect any equipment or apparatus to any Building system (e.g., electrical, plumbing, mechanical) which exceeds the capacity of such system, nor to permit on the Premises any auction sale or any nuisance or the emission therefrom of any objectionable vibration, noise, or odor, nor to permit the use of the Premises for any purpose other than the Permitted Uses, nor any use thereof which is improper, offensive, or contrary to any laws, ordinances, codes, rules and regulations, or the provisions of any license, permit or other governmental consent or approval required for or applicable now or at any time during the Term to the Land, the Building or the Premises or Lessee's use thereof (collectively, "Legal Requirements"), or which is liable to invalidate or increase the premiums for any insurance on the Building or its contents, or liable to render necessary any alterations or additions to the Building;
- (d) not to obstruct in any manner any portion of the Building not hereby leased, or the sidewalks or approaches to the Building, or the Parking Area, or any hallways or Common Areas, and to conform to all reasonable rules now or hereafter made by Lessor for the care and use of the Building, its facilities and approaches;
- (e) to comply with all Legal Requirements and all recommendations of Lessor's fire insurance rating organization now or hereafter in effect, to keep the Premises equipped with all safety appliances, and to procure (and maintain in full force and effect) all licenses, permits and other governmental consents and approvals required by any Legal Requirement or by the provisions of any applicable insurance policy because of the use made of the Premises by Lessee (without hereby intending to vary the provisions of Section 4.0 above), and, if requested by Lessor, to make all repairs, alterations, replacements or additions so required in and to the Premises;

(f) except as set forth in Section 1.5, Section 14 or this Section 11.0(f), not, without on each occasion obtaining the prior written consent of Lessor which will not be unreasonably withheld or delayed, to make any alterations, renovations, improvements and/or additions to the Premises (collectively, "Alterations"), or to permit the making of any holes in any part of the Building or the painting or placing of any signs, awnings, or the like, visible from outside of the Premises; PROVIDED THAT Lessee may, without such approval, make Alterations which will neither (i) materially affect the structure of the Premises or its building service systems or (ii) cost more than \$25,000 to construct ("Minor Alterations"). Prior to commencing any Alterations, Lessee shall: secure all necessary licenses, permits and other governmental consents and approvals; except for Minor Alterations, obtain the written approval of Lessor as to the plans and specifications for such work; except for Minor Alterations, obtain the written approval of Lessor as to the general contractor (or as to each trade contractor if there is no general contractor); cause each contractor and subcontractor to carry workmen's compensation insurance in statutory amounts covering all of the contractor's and subcontractor's employees; and cause each general contractor (or each trade contractor if there is no general contractor) and subcontractor to carry comprehensive public liability insurance in amounts reasonably satisfactory to Lessor (such insurance to be written by companies reasonably satisfactory to Lessor and insuring Lessee and Lessor as well as the contractors and subcontractors). All Alterations shall be performed in a good and workmanlike manner consistent with existing conditions within the Building and shall be of a quality equal to or better than existing conditions. Lessor and Lessee hereby agree that Lessee's Work as described in Exhibit B shall remain part of the Premises upon the expiration or earlier termination of the Term. All other Alterations (other than Lessee's removable personal property and trade fixtures) shall remain part of the Premises and shall not be removed upon the expiration or earlier termination of the Term EXCEPT for those items which Lessor designates for removal in a notice given to Lessee at the time that Lessee requests Lessor's approval of such Alteration. Lessee shall pay promptly when due the entire cost of all work. Lessee shall not cause or permit any liens for labor or materials performed or furnished in connection therewith to attach to the Land or the Building, and shall discharge or bond any such liens which may be filed or recorded against the Premises within fifteen (15) days after the filing

or recording thereof. All such work shall be performed in compliance with all Legal Requirements and the provisions of all applicable insurance policies. Promptly after the completion of any Alterations, Lessee shall provide a complete set of as-built plans thereof to Lessor showing all work performed, including, without limitation, plans for all partitions, plumbing, electric service equipment and wiring, HVAC equipment and piping, sprinkler systems and other services installed or modified. Lessee shall indemnify and hold Lessor harmless from and against any and all suits, demands, causes of action, claims, losses, debts, liabilities, damages, penalties or judgments, including, without limitation, reasonable attorneys' fees, arising from injury to any person or property occasioned by or growing out of such work, which indemnity shall survive the expiration or termination of this Lease;

- (g) to save Lessor harmless and indemnified from any loss, cost and expense (including, without limitation, reasonable attorneys' fees) arising out of or relating to (i) a claim of injury to any person or damage to any property while on the Premises, if not due to the negligence or willful misconduct of Lessor or its officers, agents, employees, servants or contractors, or the breach of Lessor's obligations under this Lease; or to (ii) a claim of injury to any person or damage to any property anywhere alleged to be occasioned by any omission, neglect or default of Lessee or of anyone claiming by, through, or under Lessee, or any officer, agent, employee, servant, contractor or invitee of any of the foregoing. Lessor agrees to indemnify and hold harmless Lessee from and against all loss, cost and expense (including, without limitation, reasonable attorneys' fees) arising out of or relating to a claim for personal injury or property damage resulting from the negligence or willful misconduct of Lessor or its officers, agents, employees, servants or contractors, including claims of injury to any person or damage to any property while on the common areas on the property, if due to the negligence or willful misconduct of Lessor or its officers, agents, employees, servants or contractors, or from the breach of Lessor's obligations or representations under this Lease. The provisions of this clause (g) shall survive the expiration or termination of this Lease;
- (h) that all furniture, furnishings, fixtures and property of every kind of Lessee and of all persons claiming by, through or under Lessee which may be on the Premises from time to time (collectively, "Lessee's Property") shall be at the sole risk of Lessee, and Lessor shall

not be liable if the whole or any part thereof shall be destroyed or damaged by fire, water or otherwise, or by the leakage or bursting of water pipes, steam pipes, or other pipes, or by theft or from any other cause unless caused by the negligence or willful misconduct of Lessor, or its officers, agents, employees, servants or contractors;

- (i) to pay promptly when due, all taxes of any kind levied, imposed or assessed on Lessee's Property, which taxes shall be the sole obligation of Lessee, whether the same is assessed to Lessee or to any other person and whether the property on which such tax is levied, imposed or assessed shall be considered part of the Premises or personal property;
- (j) by the end of business on the last day of the Term (or the effective date of any earlier termination of this Lease as herein provided), to remove (1) all of Lessee's Property and (2) the items or components of Alterations designated for removal as provided in paragraph (f) above, in each case whether the same be permanently affixed to the Premises or not, and to repair any damage caused by any such removal to Lessor's reasonable satisfaction; and peaceably to yield up the Premises clean and in good order, repair and condition (reasonable wear and tear, and damage by fire or other casualty or taking which Lessee is not otherwise required by the terms of this Lease to repair or replace only excepted); and to deliver the keys to the Premises to Lessor. Any of Lessee's Property or those Alterations designated for removal as provided in paragraph (f) above which are not removed by such date shall be deemed abandoned and may be removed and disposed of by Lessor in such manner as Lessor may determine, and Lessee shall pay to Lessor on demand, as Additional Rent, the entire cost of such removal and disposition, together with the costs and expenses incurred by Lessor in making any incidental repairs and replacements to the Premises necessitated by Lessee's failure to remove Lessee's Property or those Alterations designated for removal as provided in paragraph (f) above, as required herein or by any other failure of Lessee to comply with the terms of this Lease, and for use and occupancy during the period after the expiration of the Term and prior to Lessee's performance of its obligations under this paragraph (k). Lessee shall further indemnify and hold Lessor harmless from and against any and all suits, demands, causes of action, claims, losses, debts, liabilities, damages, penalties or judgments, including, without limitation, reasonable attorneys' fees, resulting from Lessee's failure or

delay in surrendering the Premises as above provided (such indemnity to survive the expiration or termination of this Lease);

- (k) to pay Lessor's reasonable expenses, including reasonable attorneys' fees, incurred in enforcing any obligations of Lessee under this Lease;
  
- (l) not to generate, store or use any "Hazardous Materials" (as hereinafter defined) in or on the Premises or elsewhere in the Building or on the Land except those identified in writing to Lessor from time to time, and then only in compliance with any and all applicable Legal Requirements, or dispose of Hazardous Materials from the Premises to any other location except a properly approved disposal facility and then only in compliance with any and all Legal Requirements regulating such activity, nor permit any occupant of the Premises to do so. As used in this Lease, "Hazardous Materials" means and includes any chemical, substance, waste, material, gas or emission which is radioactive or deemed hazardous, toxic, a pollutant, or a contaminant under any statute, ordinance, by-law, rule, regulation, executive order or other administrative order, judgment, decree, injunction or other judicial order of or by any governmental authority, now or hereafter in effect, relating to pollution or protection of human health or the environment. By way of illustration and not limitation, "Hazardous Materials" includes "oil", "hazardous materials", "hazardous waste", and "hazardous substance" as defined in the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 ET SEQ., as amended, the Resource Conservation and Recovery Act of 1976, 42 U.S.C. Section 6902 ET SEQ., as amended, and the Toxic Substances Control Act, 15 U.S.C. 8601 ET SEQ., as amended, the regulations promulgated thereunder, and Massachusetts General Laws, Chapter 21C and Chapter 21E and the regulations promulgated thereunder. If, at any time during the Term, any governmental authority requires testing to determine whether there has been any release of Hazardous Materials by Lessee or anyone claiming by, through or under Lessee, then Lessee shall reimburse Lessor upon demand, as Additional Rent, for the reasonable costs thereof. Lessee shall execute affidavits, certifications and the like, as may be reasonably requested by Lessor from time to time concerning Lessee's best knowledge and belief concerning the presence of Hazardous Materials in or on the Premises, the Building or the Land. Lessor reserves the right to enter the Premises at reasonable times (provided twenty-four (24) hours' notice is given to

Lessee, except in case of emergency) to inspect the same for Hazardous Materials. Lessee's obligations under this paragraph (l) shall include, if at any time during the Term Lessee or anyone claiming by, through or under Lessee uses or stores radioactive materials on the Premises, compliance with all so-called "close-out" procedures of the Nuclear Regulatory Commission or other federal, state or local governmental authorities having jurisdiction over radioactive materials, regardless of whether or not such procedures are completed prior to the expiration or earlier termination of the Term. Lessee shall indemnify, defend, and hold harmless Lessor, and the holder of any mortgage on the Building or the Land, from and against any claim, cost, expense, liability, obligation or damage, including, without limitation, attorneys' fees and the cost of litigation, arising from or relating to the breach by Lessee or anyone claiming by, through or under Lessee of the provisions of this paragraph (l), and shall immediately discharge or cause to be discharged any lien imposed upon the Building or the Land in connection with any such claim. The provisions of this paragraph (l) shall survive the expiration or termination of this Lease;

- (m) in case Lessee takes possession of the Premises prior to the Commencement Date, to perform and observe all of Lessee's covenants from and after the date upon which Lessee takes possession except that no Rent shall accrue prior to the Rent Commencement Date;
- (n) to comply with all rules and regulations adopted and amended from time to time by Lessor for the operation of the Land and the Building; and
- (o) not to permit any officer, agent, employee, servant, contractor or visitor of Lessee, or of anyone claiming by, through or under Lessee, to violate any covenant or obligation of Lessee hereunder.

#### 12.0 Casualty and Eminent Domain.

12.1 SUBSTANTIAL TAKING. In the event that the entire Building, or more than fifty percent (50%) percent of the rentable area of the Premises or of the parking spaces which the Lessee is entitled to use under Section 9.0, shall be taken by any exercise of the right of eminent domain or other lawful power in pursuance of any public or other authority during the Term, then this Lease shall terminate as of the time that possession is taken by the taking authority.

12.2 PARTIAL TAKING. In the event that a taking occurs and this Lease is not terminated as provided in Section 12.1

above, then from and after the date possession is taken by the taking authority Rent shall be abated by an amount representing that part of the Rent properly allocable to the portion of the Premises so taken, but this Lease shall otherwise continue in full force and effect.

- 12.3 AWARDS. Lessor reserves and excepts all rights to damage to the Premises, the Building, the Land and the leasehold hereby created, now accrued or hereafter accruing by reason of any exercise of eminent domain, or by reason of anything lawfully done in pursuance of any public or other authority and by way of confirmation, Lessee grants to Lessor all of Lessee's rights to such damages and covenants to execute and deliver such further instruments of assignment thereof as Lessor may from time to time request. Lessor agrees, during the Initial Term only, to pay to Lessee out of the damages received, the Unamortized Value of Lessee's Work. The Unamortized Value of Lessee's Work shall mean the Value of Lessee's Work reduced annually at the end of each year of the Initial Term by one fifth of the initial amount thereof. The Value of Lessee's Work shall mean the cost to Lessee of constructing Lessee's Work reduced by soft costs.
- 12.4 SUBSTANTIAL CASUALTY. If the Premises are damaged by fire or other casualty, Lessee shall promptly notify Lessor thereof. If the Building or any part thereof shall be damaged by fire or other casualty to the extent that substantial alteration or reconstruction of the Building shall, in Lessor's sole opinion, be required (whether or not the Premises shall have been damaged), or if such casualty renders more than fifty (50%) percent of the rentable area of the Premises unusable by Lessee for the operation of its business in the Premises, or if as a result of such casualty any mortgagee of the Building requires that insurance proceeds payable in connection with such casualty be used to retire the mortgage debt, then, except as set forth in Section 12.5, Lessor may, at its option, terminate this Lease by notifying Lessee in writing of such termination within sixty (60) days after the date of such damage, in which event this Lease shall terminate on the date set forth in such notice. If such casualty renders more than fifty (50%) percent of the rentable area of the Premises unusable by Lessee for the operation of its business in the Premises, in the reasonable determination of Lessee, then Lessee may terminate this Lease by written notice thereof to Lessor within sixty (60) days after the date of such damage, or if, after such casualty, Lessor is excused from restoring the Premises under Section 12.5 and notifies

Lessee that it will not restore the Premises, then Lessee may terminate this Lease by written notice thereof to Lessor within thirty (30) days after receipt of such notice by the Lessee. In the event that this Lease is terminated pursuant to this Section 12.4, Rent shall be abated, to the extent the Premises are unusable for the Permitted Uses, from and after the date of such damage to the date of such termination of this Lease, and no further Rent shall accrue or be payable after the date of such termination.

12.5 REPAIR AND RESTORATION. In the event of a taking which does not result in the termination of this Lease pursuant to Section 12.1 above, or a casualty which does not result in the termination of this Lease pursuant to Section 12.4 above, or if, notwithstanding the occurrence of a substantial casualty described in Section 12.4, Lessor decides not to demolish the Building, the Premises shall be repaired and restored in the manner provided in this Section. Lessor shall diligently act to restore the Building and the Premises (exclusive of all items or components of Alterations which Lessee is by this Lease either entitled to or required to remove upon the expiration or earlier termination of this Lease, and Lessee's Property) or, in case of taking, what remains thereof, to substantially the condition in which they existed prior to the occurrence of such taking or casualty, PROVIDED, HOWEVER, that: (i) in no event shall Lessor be required to spend in connection with restoring the Premises more than the amount of insurance proceeds or taking award actually received and allocable thereto (except that this limitation with respect to insurance proceeds shall not apply to casualties occurring during such time as Lessor self-insures pursuant to Section 7.4 above); (ii) Lessor shall not be required to restore or replace any Alterations which Lessee is by this Lease either entitled to or required to remove upon the expiration or earlier termination of this Lease; and (iii) Lessor shall not be required to restore or replace any of Lessee's Property. Lessor shall not be liable for any inconvenience or annoyance to Lessee or injury to the business of Lessee resulting in any way from such taking or damage or the repair thereof. Rent shall be abated from and after the date of such taking or damage to the date on which Lessor substantially completes the restoration described above, to the extent the Premises are unusable for the Permitted Uses.

### 13.0 Defaults; Events of Default; Remedies.

13.1 DEFAULTS; EVENTS OF DEFAULT. The following shall, if any requirement for notice or lapse of time or both has

not been met, constitute defaults hereunder, and, if such requirements have been met, constitute "Events of Default" hereunder:

- (a) The failure of Lessee to perform or observe any of Lessee's covenants or agreements hereunder concerning the payment of money for a period of ten (10) days after written notice thereof, PROVIDED, HOWEVER, that Lessee shall not be entitled to such notice if Lessor has given notice to Lessee of two or more previous such failures within a twelve-month period, in which event such failure shall constitute an Event of Default hereunder upon the expiration of ten (10) days after such payment was due;
- (b) The failure of Lessee to maintain the insurance required hereunder in full force and effect;
- (c) The execution by Lessee of any assignment or sublease without the prior written consent of Lessor;
- (d) The failure of Lessee to perform or observe any of Lessee's other covenants or agreements hereunder for a period of thirty (30) days after written notice thereof (PROVIDED THAT, in the case of defaults not reasonably curable in thirty (30) days through the exercise of reasonable diligence, such 30-day period shall be extended for so long as Lessee commences cure within such period and thereafter prosecutes such cure to completion continuously and with reasonable diligence; or
- (e) If the leasehold hereby created shall be taken on execution, or by other process of law; or if any assignment shall be made of Lessee's property for the benefit of creditors; or if a receiver, guardian, conservator, trustee in bankruptcy or similar officer shall be appointed to take charge of all or any part of Lessee's assets by a court of competent jurisdiction; or if a petition is filed by Lessee under any bankruptcy or insolvency law; or if a petition is filed against Lessee under any bankruptcy or insolvency law and the same shall not be dismissed within sixty (60) days from the date upon which it is filed; or a lien or other involuntary encumbrance is filed against Lessee's leasehold (or against the Premises, the Building or the Land based on a claim against Lessee) and is not discharged or bonded within thirty (30) days after the filing thereof.

13.2 TERMINATION. If an Event of Default shall occur, Lessor may, at its option, immediately or any time thereafter

and without demand or notice, enter upon the Premises or any part thereof in the name of the whole and repossess the same as of Lessor's former estate and dispossess Lessee and those claiming through or under Lessee and remove their effects, forcibly if necessary, without being deemed guilty of any manner of trespass and without prejudice to any remedies which might otherwise be used for arrears of rent or preceding breach of covenant, and upon such entry this Lease shall terminate. In lieu of making such entry, Lessor may terminate this Lease upon three (3) business days' prior written notice to Lessee. Upon any termination of this Lease as the result of an Event of Default, Lessee shall quit and peacefully surrender the Premises to Lessor.

- 13.3 SURVIVAL OF COVENANTS. No such termination of this Lease shall relieve Lessee of its liability and obligations under this Lease and such liability and obligations shall survive any such termination. Lessee shall indemnify and hold Lessor harmless from all loss, cost, expense, damage or liability arising out of or in connection with such termination.
- 13.4 DAMAGES. In the event of any such termination, Lessee shall pay to Lessor the Rent up to the time of such termination. Lessee shall remain liable for, and shall pay on the days originally fixed for such payment hereunder, the full amount of all Basic Rent and Additional Rent as if this Lease had not been terminated; PROVIDED, HOWEVER, if Lessor relets the Premises, there shall be credited against such obligation the amount actually received by Lessor each month from such lessee after first deducting all costs and expenses incurred by Lessor in connection with reletting the Premises and, if Lessor has previously received a payment under the succeeding paragraph of this Section 13.4, there shall be credited against such obligation the amount actually received by Lessor.

Lessee further agrees to pay to Lessor, on demand, as and for liquidated and agreed damages for Lessee's default, the amount by which:

- (a) the aggregate Rent which would have been payable under this Lease by Lessee from the date of such termination until what would have been the last day of the Term but for such termination, EXCEEDS
- (b) the greater of (i) the fair and reasonable rental value of the Premises for the same period, less Lessor's reasonable estimate of expenses to be incurred in connection with

reletting the Premises, including, without limitation, all repossession costs, brokerage commissions, legal expenses, reasonable attorneys' fees, alteration costs, and expenses of preparation for such reletting, or (ii) the sum of (A) the amount actually received by Lessor from reletting the Premises (if any) after payment of such expenses, and (B) the amount actually received by Lessor from Lessee pursuant to the preceding paragraph of this Section (if any).

If the Premises or any part thereof are relet by Lessor for the period prior to what would have been the last day of the Term but for such termination, or any portion thereof, the amount of rent reserved upon such reletting shall be, PRIMA FACIE, the fair and reasonable rental value for the part or the whole of the Premises so relet during the term of the reletting.

In lieu of any other damages hereunder, Lessor may by written notice to Lessee, at any time after this Lease is so terminated, elect to recover, and Lessee shall pay as full and final liquidated damages, an amount equal to (i) the Basic Rent and Additional Rent accrued under Section 5.0 hereof in the twelve (12) months ending on the effective date of such termination, PLUS (ii) all Basic Rent and Additional Rent which was unpaid as of the effective date of such termination, LESS (iii) the amount received by Lessor pursuant to the foregoing provisions of this Section 13.4 prior to the time of payment by Lessee of such liquidated damages.

Nothing herein contained shall limit or prejudice the right of Lessor to prove and obtain as liquidated damages by reason of such termination, an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, such damages are to be proved, whether or not such amount be greater, equal to, or less than the amount of the difference referred to above.

- 13.5 RIGHT TO RELET. At any time or from time to time after any such termination, Lessor may relet the Premises or any part thereof for such a term (which may be greater or less than the period which would otherwise have constituted the balance of the Term) and on such conditions (which may include concessions or free rent) as Lessor, in its reasonable discretion, may determine, and may collect and receive the rents therefor. Lessor shall in no way be responsible or liable for any failure

to relet the Premises or any part thereof, or for any failure to collect any rent due upon any such reletting.

- 13.6 RIGHT TO EQUITABLE RELIEF. In the event there shall occur a default hereunder, Lessor shall be entitled to seek to enjoin such default and shall have the right to invoke any right and remedy allowed at law or in equity or by statute or otherwise as though re-entry and other remedies were not provided for in this Lease.
- 13.7 RIGHT TO SELF HELP. In the event of a default by Lessee hereunder which continues beyond the expiration of the applicable grace period, Lessor shall have the right to perform such defaulted obligation of Lessee, including the right to enter upon the Premises to do so. Lessor shall, as a courtesy only, notify Lessee of its intention to perform such obligation. In the event of a default by Lessee hereunder which has not yet continued beyond the expiration of the applicable grace period but which Lessor determines constitutes an emergency threatening imminent injury to persons or damage to property, Lessor shall have the right to perform such defaulted obligation of Lessee (including the right to enter upon the Premises to do so) after giving Lessee such notice (if any) as is reasonable under the circumstances. In either event, the aggregate of (i) all sums so paid by Lessor, (ii) interest (at the rate of 1-1/2% per month or the highest rate permitted by law, whichever is less) on such sum, and (iii) all necessary incidental costs and expenses in connection with the performance of any such act by Lessor, shall be deemed to be Additional Rent under this Lease and shall be payable to Lessor immediately upon demand. Lessor may exercise its rights under this Section 13.7 without waiving any other of its rights or releasing Lessee from any of its obligations under this Lease. If Lessor defaults on its obligations hereunder after thirty (30) days notice thereof or, in the event of an emergency, such notice as is reasonable under the circumstances, and, as a result, Lessee is compelled to pay, or reasonably elects to pay any sum of money or do any act which will require the payment of a sum of money, or incurs any reasonable expense to cure such default by Lessor, any reasonable amounts so paid shall be due from Lessor to Lessee, and Lessor shall pay such amount promptly to Lessee upon receipt of a bill therefor. The right granted to Lessee in this Section 13.7 is in addition to any other rights and remedies Lessee may have at law or in equity.
- 13.8 FURTHER REMEDIES. Nothing in this Lease contained shall require Lessor to elect any remedy for a default or Event of Default by Lessee hereunder, and all rights

herein provided shall be cumulative with one another and with any other rights and remedies which Lessor may have at law or in equity in the case of such a default or Event of Default.

- 14.0 CONSTRUCTION. Lessee shall have the right to make improvements to the Premises in order to make them suitable for use as a semi-conductor wafer manufacturing facility in accordance with the provisions of the Work Letter attached hereto as EXHIBIT B.
- 15.0 LESSOR'S RIGHT OF ENTRY. Lessor reserves the right to enter the Premises on reasonable advance notice to the Lessee for the purpose of installing one or two elevators and installing or modifying the existing service systems in the Building in order to render tenantable the third and fourth floors of the Building; PROVIDED THAT Lessor shall cooperate with Lessee in order to minimize interference with Lessee's business operations. Lessor agrees that all work to install elevator(s) shall be commenced as soon as reasonably possible after the Commencement Date, and Lessor shall use reasonable efforts to complete the installation as soon as possible. Lessor and Lessor's agents shall have the right to enter the Premises at reasonable times (provided 24 hours' notice is given to Lessee, except in case of emergency), and if Lessor shall so elect (without hereby imposing any obligation on Lessor to do so), to permit Lessor to make any repairs or additions Lessor may deem necessary; and at Lessee's expense to remove any Alterations, signs, awnings, aerials, flagpoles or the like not consented to in writing or permitted hereunder; and to permit Lessor to show the Premises to prospective purchasers and lessees (at reasonable times on reasonable advance notice to Lessee) and to keep affixed to any suitable part of the Premises, during the nine (9) months preceding the expiration of the Term, appropriate notices for letting or selling.
- 16.0 REAL ESTATE BROKER. Lessor and Lessee each represent to the other that they have dealt with no broker in connection with this Lease. Lessee agrees to indemnify and hold Lessor harmless from and against any claims for commissions or fees by reason of any act of Lessee or its representatives. Lessor agrees to indemnify and hold Lessee harmless from and against any claims for commissions or fees by any person by reason of any act of Lessor or its representatives.
- 17.0 NOTICES. Whenever by the terms of this Lease notice, demand, or other communication shall or may be given either to Lessor or to Lessee, the same shall be in writing and shall be sent by hand delivery, or by registered or certified mail, postage prepaid, or by Federal Express or other similar overnight delivery service, to:

Lessor: Massachusetts Institute of Technology  
238 Main Street - Suite 200  
Cambridge, Massachusetts 02142  
Attention: Philip A. Trussell,  
Director of Real Estate

with a copy to: Stuart T. Freeland, Esq.  
Rackemann, Sawyer & Brewster  
One Financial Center  
Boston, Massachusetts 02111

Lessee: Analog Devices, Inc.  
One Technology Way  
P.O. Box 9106  
Norwood, MA 02062-9106  
Attention: Chief Financial Officer

with a copy to: Philip D. Stevenson, Esq.  
Hale and Dorr  
60 State Street  
Boston, MA 02109-1816

Any notice, demand or other communication shall be effective upon receipt by or tender for delivery to the intended recipient thereof.

18.0 NO WAIVERS. Failure of a party to complain of any act or omission on the part of the other party no matter how long the same may continue, shall not be deemed to be a waiver by such party of any of its rights hereunder. No waiver by a party at any time, expressed or implied, of any breach of any provision of this Lease shall be deemed a waiver of a breach of any other provision of this Lease or a consent to any subsequent breach of the same or any other provision. No acceptance by a party of any partial payment shall constitute an accord or satisfaction but shall only be deemed a partial payment on account; nor shall any endorsement or statement on any check or any letter accompanying any check or payment be deemed an accord and satisfaction, and the receiving party may accept such check or payment without prejudice to that party's right to recover the balance of such installment or pursue any other remedy available to such party in this Lease or at law or in equity.

19.0 Ground Leases; Mortgages.

19.1 RIGHTS OF GROUND LESSORS AND MORTGAGEES. No act or failure to act on the part of Lessor which would entitle Lessee under the terms of this Lease, or by law, to be relieved of Lessee's obligations hereunder or to

terminate this Lease, shall result in a release or termination of such obligations or a termination of this Lease unless (i) Lessee shall have first given written notice to Lessor's ground lessors and mortgagees of the act or failure to act on the part of Lessor which Lessee claims as the basis of Lessee's rights; and (ii) such ground lessors and mortgagees, after receipt of such notice, have failed or refused to correct or cure the condition within a reasonable time thereafter, but nothing in this Lease shall be deemed to impose any obligation on any such ground lessor or mortgagee to correct or cure any such condition. The foregoing sentence shall apply only for the benefit of ground lessors and mortgagees who have been identified to Lessee by a notice given in accordance with Section 17. No ground lessor shall be liable for the failure to perform any of the obligations of Lessor hereunder unless and until such ground lessor terminates its ground lease and takes possession of the Premises, nor shall any mortgagee be liable for the failure to perform any of the obligations of Lessor hereunder unless and until such mortgagee enters upon and takes possession of the Premises for purposes of foreclosure.

- 19.2 LEASE SUBORDINATE. This Lease is and shall be subject and subordinate to any ground lease or mortgage now or hereafter on the Premises, and to all advances under any such mortgage and to all renewals, amendments, extensions and consolidations thereof, PROVIDED THAT the holder of such ground lessor's interest or mortgagee's interest enters into a non-disturbance and attornment agreement with Lessee which provides that in the event that such ground lessor or mortgagee succeeds to Lessor's interest hereunder, then, PROVIDED THAT Lessee is not in default hereunder beyond the cure period provided in this Lease, such party shall recognize and be bound by the terms of this Lease. In the event that any ground lessor or the holder of any mortgage succeeds to Lessor's interest in the Premises or any portion thereof, Lessee hereby agrees to attorn to such ground lessor or mortgagee. In confirmation of such subordination, Lessee shall execute and deliver promptly any certificate in recordable form that Lessor or any ground lessor or any mortgagee may reasonably request. Notwithstanding the foregoing provisions of this Section, the holder of any mortgage on the Premises may at any time subordinate its mortgage to this Lease by written notice to Lessee. Lessor hereby represents to Lessee that as of the date of this Lease, there are no mortgages or ground leases encumbering the Premises or any portion thereof.

20.0 NOTICE OF LEASE; ESTOPPEL CERTIFICATES. Lessor and Lessee agree that this Lease shall not be recorded. However, upon the request of either party, Lessor and Lessee shall execute and acknowledge a Notice of Lease in mutually acceptable and recordable form.

From time to time during the Lease Term, and without charge, either party shall, within fifteen (15) business days of request by the other, certify by written instrument duly executed and acknowledged, to the requesting party or to any person reasonably specified by the requesting party, regarding (a) the existence of any amendments or supplements to this Lease; (b) the validity and force and effect of this Lease; (c) the existence of any known default or Event of Default; (d) the existence of any offsets, counterclaims or defenses; (e) the Commencement Date and the expiration date of the Lease Term; (f) the amount of Rent due and payable and the date to which Rent has been paid; and (g) such other matters as may be reasonably requested.

21.0 HOLDING OVER. If Lessee occupies the Premises after the day on which the Lease Term expires (or the effective date of any earlier termination as herein provided) without having entered into a new lease thereof with Lessor, Lessee shall be a tenant-at-sufferance only, subject to all of the terms and provisions of this Lease; PROVIDED THAT Basic Rent shall be payable for the first sixty (60) days after such expiration or termination at one and one-half (1.5) times the then-effective Basic Rent stated in Section 3.2 and thereafter shall be payable at three (3) times the then-effective Basic Rent there stated. Such a holding over, even if with the consent of Lessor, shall not constitute an extension or renewal of this Lease. For purposes of this Section, the failure of Lessee to complete by the last day of the Lease Term or the effective date of any earlier termination as herein provided the "close-out" procedures required by the Nuclear Regulatory Commission or any other federal, state or local governmental agency having jurisdiction over the use of radioactive materials within the Premises shall constitute a holding over and subject Lessee to the provisions of this Section.

22.0 FORCE MAJEURE. Neither Lessor nor Lessee shall be deemed to be in default hereunder and the time for performance of any of their respective obligations hereunder other than the payment of money shall be postponed for so long as the performance of such obligation is prevented by strike, lock-out, act of God, absence of materials or any other matter not reasonably within the control of the party which must perform the obligation (collectively, "Force Majeure").

23.0 ENTIRE AGREEMENT. No oral statement or prior written matter shall have any force or effect. This Agreement shall not be

modified or canceled except by writing subscribed to by all parties.

- 24.0 SUCCESSORS AND ASSIGNS. The terms, covenants and conditions of this Lease shall run with the Land, and be binding upon and inure to the benefit of Lessor and Lessee and their respective successors and permitted assigns.
- 25.0 APPLICABLE LAW, SEVERABILITY AND CONSTRUCTION. This Lease shall be governed by and construed in accordance with the laws of Massachusetts and, if any provisions of this Lease shall to any extent be invalid, the remainder of this Lease, and the application of such provisions in other circumstances, shall not be affected thereby. The titles of the several Sections contained herein are for convenience only and shall not be considered in construing this Lease. Whenever the singular is used and when required by the context it shall include the plural, and the neuter gender shall include the masculine and feminine. The Exhibits attached to this Lease are incorporated into this Lease by reference. This Lease may be executed in several counterparts, each of which shall be an original, but all of which shall constitute one and the same instrument. The term "Lessor" whenever used herein, shall mean only the owner at the time of Lessor's interest herein, and no covenant or agreement of Lessor, express or implied, shall be binding upon any person except for defaults occurring during such person's period of ownership nor binding individually upon any fiduciary, any shareholder, officer or director, or any beneficiary under any trust, and the liability of Lessor, in any event, shall be limited to Lessor's interest in the Building. If Lessee is several persons or a partnership, Lessee's obligations are joint or partnership and also several. Unless repugnant to the context, "Lessor" and "Lessee" mean the person or persons, natural or corporate, named above as Lessor and as Lessee respectively, and their respective heirs, executors, administrators, successors and assigns.
- 26.0 AUTHORITY. Contemporaneously with the signing of this Lease, Lessee shall furnish to Lessor a certified copy of the resolution of the Board of Directors of Lessee authorizing Lessee to enter into this Lease, and Lessor shall furnish appropriate evidence of the authority of Lessor to enter into this Lease.
- 27.0 WORK TO BE PERFORMED BY POLAROID CORPORATION. Lessor will purchase the Land and the Building from Polaroid Corporation ("Polaroid") contemporaneously with the execution and delivery of this Agreement. Under the purchase and sale agreement between Lessor and Polaroid (the "Purchase Agreement"), a copy of which has been provided to the Lessee,



EXHIBIT A - PREMISES

DESCRIPTION

The land with the buildings thereon in Cambridge, Massachusetts, bounded and described as follows:

Northerly: by State Street;  
Easterly: by Osborn Street;  
Southeasterly: by Albany Street;  
Southwesterly: by Massachusetts Avenue; and  
Westerly: by Smart Street.

Said premises contain 120,847 square feet of land more or less.

Subject to a notice of variance granted to Blanchard Machine Company dated October 27, 1964, recorded with the Middlesex County South District Registry of Deeds at Book 10676, Page 366 and filed for registration with the Middlesex County South Registry District of the Land Court as Document No. 412081.

For title see the following three deeds to the Seller: (1) deed of PneumoDynamics Corporation dated June 12, 1972, recorded with said Deeds at Book 12224, Page 402 and filed for registration with the Middlesex County South Registry District of the Land Court as Document No. 498460; (2) deed of Massachusetts Institute of Technology dated September 9, 1977 and recorded with said Deeds at Book 13282, Page 401; and (3) deed of Edith Levine dated November 30, 1989 and recorded with said Deeds at Book 20232, Page 320. See also Certificate of Title No. 137943.

EXHIBIT B - WORK LETTER

This Work Letter is incorporated by reference into the Lease dated February 8, 1996 by and between Massachusetts Institute of Technology, as Lessor, and Analog Devices, Inc. as Lessee. Terms defined in or by reference in the Lease not otherwise defined herein shall have the same meaning herein as therein.

1. ADDITIONAL DEFINITIONS. Each of the following terms shall have the meaning stated immediately after it:

CONSTRUCTION AUTHORIZATIONS. Collectively, all permits, licenses and other consents and approvals required from any governmental authority for the construction of Lessee's Work.

LESSEE'S GENERAL CONTRACTOR. A general contractor selected by Lessee and approved in writing by Lessor, who will be engaged by Lessee to construct Lessee's Work.

LESSEE'S WORK. All improvements, alterations and additions which Lessee wishes to make to the Premises as part of the initial preparation thereof for Lessee's occupancy. All Lessee's Work shall be performed in a good and workmanlike manner consistent with existing conditions within the Building and shall be of a quality equal to or better than existing conditions.

WORKING DRAWINGS. The working drawings and specifications for Lessee's Work, to be prepared by Lessee and Lessee's architect in accordance with this Work Letter. The Working Drawings shall be prepared in compliance with all applicable Legal Requirements and stamped by registered Massachusetts professionals, and shall consist of all architectural and engineering plans and specifications which are required to finish the Premises or to obtain any Construction Authorization required therefor.

2. PREPARATION OF THE PREMISES. Lessee shall perform Lessee's Work at Lessee's sole cost and expense.
3. INSURANCE. Prior to the commencement of any design work on Lessee's Work, Lessee shall provide to Lessor an original certificate of insurance, in customary form, for each architect and engineer retained by Lessee in connection with the design and/or construction of Lessee's Work, which certificate shall evidence a current "errors and omissions" insurance policy as in effect, in an amount reasonably acceptable to Lessor. Prior to the commencement of the construction of Lessee's Work, Lessee shall provide to Lessor an original certificate of insurance for the general

construction of Lessee's Work, which certificate shall evidence a current general liability insurance policy as in effect, in an amount reasonably acceptable to Lessor, naming Lessor as an additional insured.

4. WORKING DRAWINGS. Lessee shall be solely responsible for the preparation and completion of all preliminary and final Working Drawings. Lessee shall retain its own architects and engineers to prepare Working Drawings, PROVIDED THAT Lessor first approves such engineers and architects so selected by Lessee, which approval shall not be unreasonably withheld or delayed. Lessee shall provide copies of the preliminary Working Drawings to Lessor, and Lessor shall provide to Lessee within one (i) business day thereafter a list of corrections and modifications which Lessor requires to be made to the Working Drawings.

Lessee shall revise the preliminary Working Drawings to incorporate the corrections and modifications requested by Lessor and shall submit final Working Drawings to Lessor for its approval. Lessor shall review the final Working Drawings and, within one (1) business day after receipt thereof, Lessor shall either (a) notify Lessee that Lessor has approved the final Working Drawings, or (b) provide to Lessee a list of corrections and modifications which Lessor requires to be made to the Working Drawings. In the event Lessor returns the Working Drawings to Lessee for correction or modification, Lessee shall diligently correct the Working Drawings and re-submit them to Lessor for approval pursuant to the preceding provisions of this paragraph. No work shall be performed until final Working Drawings have been approved in writing by Lessor.

The review and/or approval by Lessor or its architect or engineers of any plans, sketches or Working Drawings submitted by Lessee relating to Lessee's Improvements shall not (i) constitute an opinion or representation by Lessor that the same are in compliance with all applicable Legal Requirements and the provisions of all applicable insurance policies or as to the feasibility of constructing the work shown thereon, or (ii) impose on Lessor any responsibility for a design defect, it being agreed that all such responsibility shall remain solely with Lessee.

Lessee shall reimburse Lessor, promptly upon demand therefor, for all costs and expenses reasonably incurred by Lessor in reviewing any plans, drawings and specifications submitted by Lessee pursuant to this Work Letter, which reimbursement shall be due and payable as Additional Rent.

5. LESSEE'S GENERAL CONTRACTOR. Lessee shall obtain the prior reasonable written approval of Lessor as to Lessee's General Contractor.
6. LESSEE'S WORK. Lessee shall be solely responsible for obtaining all Construction Authorizations required for Lessee's Work. Lessee shall apply for and maintain in full force and effect (or cause Lessee's General Contractor to apply for and so maintain) all Construction Authorizations required for the construction of Lessee's Work, and upon completion of Lessee's Work shall obtain a certificate from the appropriate governmental authority that Lessee's Work has been completed in accordance with Legal Requirements. Lessee shall deliver to Lessor a copy of said certificate promptly after receiving the same.

Promptly after receiving all Construction Authorizations required for Lessee's Work, Lessee shall cause Lessee's General Contractor to commence construction and diligently to proceed to completion thereof. All construction shall be performed in a good and workmanlike manner, using new materials and in compliance with the Working Drawings, the Construction Authorizations, all Legal Requirements, and the provisions of all applicable insurance policies.

Lessee shall pay promptly for all labor and materials supplied to Lessee in connection with Lessee's Work, shall not cause or permit any liens for such labor or materials to attach to the Premises, and shall bond or discharge any such lien which may be filed or recorded within fifteen (15) days after Lessee receives actual notice of such filing or recording.

The construction of Lessee's Work shall be subject to the requirements set forth in Section 11.0(f) of the Lease. Lessor may inspect such work at any time or times and shall promptly give notice to Lessee of any observed defects. Lessee shall indemnify, defend and hold harmless Lessor from and against any and all liability, damage, penalties or judgments and from and against any claims, actions, proceedings and expenses and costs in connection therewith, including reasonable attorneys' fees, arising out of or resulting from the design or construction of Lessee's Work.

Lessee shall obtain from Lessee's General Contractor a guaranty against construction defects for a period of not less than one (1) year.

7. DELAYS. No delay by Lessee, Lessee's architects or engineers, Lessee's General Contractor, or any subcontractor or supplier thereof shall affect the Rent Commencement Date.

8. LESSOR'S AND LESSEE'S REPRESENTATIVES. Prior to the commencement of any design work for the Premises, each party hereto shall designate in writing to the other a person as "Lessor's Representative" and "Lessee's Representative" respectively, which person shall be available during ordinary business hours to review the progress of the work and to respond to issues which arise during construction. Each party may rely on the other's Representative with respect to all matters which pertain to this Work Letter, each party having authorized its Representative to make decisions binding upon such party with respect to such matters.
9. GENERAL. A breach by Lessee of any provision of this Work Letter shall constitute a default under the Lease, for which Lessor shall have all remedies therein provided.

## SUBSIDIARIES

The following is a list of the Company's subsidiaries:

	Organized Under Law of	Percentage of Voting Securities Owned by Registrant as of November 3, 2001
Analog Devices Limited	United Kingdom	100%
Analog Devices, GmbH	Germany	100%
Analog Devices, S.A.	France	100%
Analog Devices, K.K.	Japan	100%
Analog Devices APS	Denmark	100%
Analog Devices Nederland, B.V.	The Netherlands	100%
Analog Devices International, Inc.	Massachusetts	100%
Analog Devices Israel, Ltd.	Israel	100%
Analog Devices A.B.	Sweden	100%
Analog Devices SRL	Italy	100%
Analog Devices, GMBH	Austria	100%
Analog Devices Korea, Ltd.	Korea	100%
Analog Devices, B.V.	The Netherlands	100%
Analog Devices Holdings, B.V.	The Netherlands	100%
Analog Devices Research & Development Ltd.	Ireland	100%
Analog Devices (Philippines), Inc.	The Philippines	100%
Analog Devices Foreign Sales Corporation, B.V.	The Netherlands	100%
Analog Devices Foundry Services, Inc.	Delaware	100%
Analog Devices Asian Sales, Inc.	Delaware	100%
Analog Devices Taiwan, Ltd.	Taiwan	100%
Analog Devices Ireland, Ltd.	Ireland	100%
Analog Devices Hong Kong, Ltd.	Hong Kong	100%
Analog Devices Pty, Ltd.	Australia	100%
Analog Devices India Private Limited	India	100%
Analog Devices Gen. Trias, Inc.	The Philippines	100%
Analog Devices International Financial Services Company	Ireland	100%
Analog Devices Foreign Sales Corporation	Barbados	100%
Analog Development (Israel) 1996 Ltd.	Israel	100%
Analog Devices (China) Co. Ltd.	China	100%
Analog Devices Canada, Ltd.	Canada	100%
Edinburgh Portable Compilers Limited	Scotland	100%
Analog Devices Micromachines, Inc.	Delaware	100%
ADI Micromachines, Ltd.	United Kingdom	100%
BCO Technologies, plc	United Kingdom	100%
Analog Devices Belfast, Ltd.	United Kingdom	100%
Analog Devices IMI, Inc.	California	100%
Analog Devices ChipLogic, Inc.	California	100%
Staccato Systems, Inc.	California	100%
Analog Devices Australia Pty. Ltd.	Australia	100%
ChipLogic India Private Limited	India	100%
Analog/ NCT Supply Ltd.	Delaware	50%
Analog Devices Realty Holdings, Inc.	The Philippines	40%
Analog Supplies Company	Japan	15%
Analyzed Investments, Ltd.	Ireland	7.4%

**CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS**

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 2-63561, 2-90023, 2-95495, 33-2502, 33-4067, 33-22604, 33-22605, 33-29484, 33-39851, 33-39852, 33-43128, 33-46520, 33-46521, 33-60696, 33-60642, 33-61427, 33-64849, 333-04771, 333-04819, 333-04821, 333-08493, 333-40222, 333-40224, 333-47787, 333-47789, 333-48243, 333-56529, 333-57444, 333-69359, 333-79551, 333-87055, 333-50092, 333-53314, 333-53828 and 333-75170, and Form S-3 Nos. 333-08505, 333-08509, 333-17651, 333-87053, 333-48928, 333-51530 and 333-53660) of Analog Devices, Inc. and in the related Prospectuses of our report dated November 19, 2001, with respect to the consolidated financial statements and schedule of Analog Devices, Inc. included in this Annual Report (Form 10-K) for the year ended November 3, 2001.

The image shows the handwritten signature of Ernst & Young LLP in black ink. The signature is written in a cursive, flowing style, with the words "Ernst + Young" followed by "LLP".

Boston, Massachusetts

January 24, 2002