UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 1, 2000

---

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 number:

SILICON LABORATORIES INC.
(Exact name of registrant as specified in its charter)

Delaware	74-2793174
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4635 Boston Lane, Austin, Texas	78735
(Address of principal executive offices)	(Zip Code)

(512) 416-8500
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. /X/ Yes / / No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. / / Yes / / No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicatethe number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of July 1, 2000, 47,249,861 shares of common stock of Silicon Laboratories Inc. were outstanding.

PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

SILICON LABORATORIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

ASSETS	JULY 1, 2000 (Unaudited)	JANUARY 1, 2000
Current assets:		
Cash and cash equivalents	$ 83,495	$ 8,197
Short-term investments	22,195	6,509
Accounts receivable, net of allowance for doubtful accounts of $629 at July 1, 2000 and $569 at January 1, 2000	10,575	10,322
Inventories	6,792	2,837
Deferred income taxes	461	963
Prepaid expenses and other	1,097	435
Total current assets	124,615	29,263
Property, equipment and software, net	18,412	12,350
Other assets	253	345
Total assets	$ 143,280	$ 41,958
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,265	$ 7,374
Accrued expenses	2,587	1,083
Deferred revenue	955	1,006
Current portion of long-term obligations	3,721	2,697
Income taxes payable	238	2,822
Total current liabilities	13,766	14,982
Long-term debt and leases, net of current maturities	7,277	6,081
Other long-term obligations	304	142
Total liabilities	21,347	21,205
Redeemable convertible preferred stock	--	12,750
Stockholders' equity:		
Common stock--$.0001 par value; 250,000 and 52,000 shares authorized; 47,250 and 30,016 shares issued and outstanding at July 1, 2000 and January 1, 2000, respectively	5	3
Additional paid-in capital	124,984	19,014
Stockholder notes receivable	(1,472)	(1,472)
Deferred stock compensation	(14,558)	(15,330)
Retained earnings	12,974	5,788
Total stockholders' equity	121,933	8,003
Total liabilities and stockholders' equity	$ 143,280	$ 41,958

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SILICON LABORATORIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JULY 1, 2000	JULY 3, 1999	JULY 1, 2000	JULY 3, 1999
Sales	$ 24,286	$ 7,543	$ 43,973	$ 13,863
Cost of goods sold	8,390	2,866	15,146	5,281
Gross profit	15,896	4,677	28,827	8,582
Operating expenses:				
Research and development	4,444	1,597	8,024	2,890
Selling, general and administrative	4,355	1,500	7,574	2,632
Amortization of deferred stock compensation	787	116	1,566	149
Operating expenses	9,586	3,213	17,164	5,671
Operating income	6,310	1,464	11,663	2,911
Other (income) and expenses:				
Interest income	(1,258)	(75)	(1,506)	(138)
Interest expense	342	140	618	260
Income before tax expense	7,226	1,399	12,551	2,789
Income tax expense	3,045	323	5,365	645
Net income	$ 4,181	$ 1,076	$ 7,186	$ 2,144
Net income per share:				
Basic	$ 0.10	$ 0.07	$ 0.22	$ 0.16
Diluted	$ 0.08	$ 0.02	$ 0.15	$ 0.05
Weighted average common shares outstanding:				
Basic	43,279	14,374	32,212	13,618
Diluted	49,812	43,907	47,910	43,702

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

SILICON LABORATORIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS)

	SIX MONTHS ENDED	
	JULY 1, 2000	JULY 3, 1999
OPERATING ACTIVITIES		
Net income	$ 7,186	$ 2,144
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization expense	2,374	738
Amortization of deferred stock compensation	1,566	149
Amortization of note/lease end-of-term interest payments	161	26
Compensation expense related to stock options, direct stock issuance, and warrants to non-employees	153	16
Investment interest receivable	(187)	37
Changes in operating assets and liabilities:		
Prepaid expenses and other	(662)	(389)
Accounts receivable	(253)	(1,230)
Inventories	(3,956)	(907)
Other assets	92	(11)
Accounts payable	(1,109)	(611)
Accrued expenses	1,504	381
Deferred revenue	(51)	--
Deferred income taxes	502	--
Income taxes payable	(2,344)	646
Net cash provided by operating activities	4,976	989
INVESTING ACTIVITIES		
Purchases of short-term investments	(33,025)	(1,499)
Maturities of short-term investments	17,527	1,425
Purchases of property and equipment	(8,436)	(2,595)
Net cash used in investing activities	(23,934)	(2,669)
FINANCING ACTIVITIES		
Proceeds from long-term debt	3,537	2,383
Payments on long-term debt	(1,074)	(458)
Proceeds from credit facility	--	1,100
Proceeds from equipment lease financing	--	1,026
Payments on capital leases	(243)	(221)
Proceeds from exercise of warrants	100	--
Net proceeds from initial public offering of common stock	90,765	--
Net proceeds from exercises of stock options	1,171	48
Net cash provided by financing activities	94,256	3,878
Increase in cash and cash equivalents	75,298	2,198
Cash and cash equivalents at beginning of period	8,197	2,867
Cash and cash equivalents at end of period	$ 83,495	$ 5,065
Supplemental disclosure of cash flow information:		
Interest paid	$ 437	$ 237
Income taxes paid	$ 7,002	$ 123

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

SILICON LABORATORIES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
JULY 1, 2000

1. Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments which, in the opinion of management, are necessary to present fairly the consolidated financial position of Silicon Laboratories Inc. and its subsidiary (collectively, the "Company") at July 1, 2000 and the consolidated results of its operations and cash flows for the three and six months ended July 1, 2000 and July 3, 1999. All intercompany accounts and transactions have been eliminated. The results of operations for the three and six months ended July 1, 2000 are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited condensed consolidated financial statements do not include footnotes and certain financial presentations normally required under accounting principles generally accepted in the United States. Therefore, these financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended January 1, 2000, included in the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission.

Short-Term Investments

The Company's short-term investments have been classified as available-for-sale securities in accordance with Statement of Financial Accounting Standard (SFAS) No. 115, ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES. The carrying value of available-for-sale securities approximates fair value.

Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market. Inventories consist of the following (in thousands):

	JULY 1, 2000	JANUARY 1, 2000
Work in progress	$ 4,002	$ 1,902
Finished goods	2,790	935
	$ 6,792	$ 2,837

Stock Based Compensation

On March 31, 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, ACCOUNTING FOR CERTAIN TRANSACTIONS INVOLVING STOCK COMPENSATION, an interpretation of APB Opinion No. 25. The Interpretation clarifies guidance for certain issues that arose in the application of APB Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES. The interpretation will be applied prospectively to new awards, modifications to outstanding awards, and changes in employee status on or after July 1, 2000, except as follows: (i) requirements

related to the definition of an employee apply to new awards granted after December 15, 1998; (ii) modifications that directly or indirectly reduce the exercise price of an award apply to modifications made after December 15, 1998; and (iii) modifications to add a reload feature to an award apply to modifications made after January 12, 2000. The Company is evaluating the effect the application of the Interpretation will have on the financial statements.

Other Comprehensive Income

In June 1997, the FASB issued SFAS No. 130, REPORTING COMPREHENSIVE INCOME, which establishes standards for reporting and display of comprehensive income and its components in the financial statements. There were no material differences between net income and comprehensive income during any of the periods presented.

Earnings Per Share

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share data):

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JULY 1, 2000	JULY 3, 1999	JULY 1, 2000	JULY 3, 1999
Net income	$ 4,181	$ 1,076	$ 7,186	$ 2,144
Basic:				
Weighted-average shares of common stock outstanding	47,250	29,068	39,494	28,877
Weighted-average shares of common stock subject to repurchase	(3,971)	(14,694)	(7,282)	(15,259)
Shares used in computing basic net income per share	43,279	14,374	32,212	13,618
Effect of dilutive securities:				
Weighted-average shares of common stock subject to repurchase	3,899	14,548	7,179	15,091
Convertible preferred stock and warrants	121	13,950	6,363	13,945
Stock options	2,513	1,035	2,156	1,048
Shares used in computing diluted net income per share	49,812	43,907	47,910	43,702
Basic net income per share	$ 0.10	$ 0.07	$ 0.22	$ 0.16
Diluted net income per share	$ 0.08	$ 0.02	$ 0.15	$ 0.05

2. Stockholders' Equity

During the quarter ended July 1, 2000, the Company recorded deferred stock compensation of $833,000 in connection with nonqualified stock options granted during the quarter at an exercise price lower than the fair market value of the common stock on the date of grant. The deferred stock compensation is being amortized over the vesting periods of the applicable options. Amortization of deferred compensation recorded in the quarter ended July 1, 2000 from deferred stock compensation relating to options granted in such quarter and in prior periods resulted in $787,000 of expense in the quarter ended July 1, 2000.

3. Commitments and Contingencies

The Company entered into a new lease commitment on June 29, 2000 for approximately 34,000 square feet of supplemental office space in Austin, Texas with occupancy scheduled for October 1, 2000, pending completion of construction of the facility. The lease term is for 76 months after initial occupancy with one 5 year renewal option. Monthly rental payments are scheduled to increase from $48,000 to $56,000 per month at various intervals throughout the term of the lease.

On June 22, 2000, the Company entered into an agreement to acquire Krypton Isolation, Inc. pursuant to which the Company has agreed to pay $42 million in cash and common stock (estimated using the value of the Company's common stock on such date and subject to further adjustment). This transaction is expected to close in the third calendar quarter of 2000.

The Company is involved in various legal proceedings that have arisen in the normal course of business. While the ultimate results of these matters cannot be predicted with certainty, management does not expect them to have a material adverse effect on the consolidated financial position and results of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES THERETO INCLUDED ELSEWHERE IN THIS QUARTERLY REPORT ON FORM 10-Q, THE PRIOR QUARTERLY REPORT ON FORM 10-Q FILED APRIL 26,2000 AND THE SILICON LABORATORIES' PROSPECTUS DATED MARCH 23, 2000. EXCEPT FOR THE HISTORICAL FINANCIAL INFORMATION CONTAINED HEREIN, THE MATTERS DISCUSSED IN THIS QUARTERLY REPORT ON FORM 10-Q MAY BE CONSIDERED "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS INCLUDE DECLARATIONS REGARDING THE INTENT, BELIEF OR CURRENT EXPECTATIONS OF SILICON LABORATORIES AND ITS MANAGEMENT AND MAY BE SIGNIFIED BY THE WORDS "EXPECTS," "ANTICIPATES," "INTENDS," "BELIEVES" OR SIMILAR LANGUAGE. PROSPECTIVE INVESTORS ARE CAUTIONED THAT ANY SUCH FORWARD-LOOKING STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND INVOLVE A NUMBER OF RISKS AND UNCERTAINTIES. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES INCLUDE THOSE DISCUSSED BELOW, AS WELL AS THOSE DISCUSSED IN SILICON LABORATORIES' PROSPECTUS DATED MARCH 23, 2000 AND THE PRIOR QUARTERLY REPORT ON FORM 10-Q FILED APRIL 26,2000. OUR FISCAL YEAR-END FINANCIAL REPORTING PERIODS ARE A 52- OR 53- WEEK YEAR ENDING ON THE SATURDAY CLOSEST TO DECEMBER 31ST. OUR SECOND QUARTER OF FISCAL YEAR 2000 ENDED JULY 1, 2000. OUR SECOND QUARTER OF FISCAL YEAR 1999 ENDED JULY 3, 1999. ALL OF THE QUARTERLY PERIODS REPORTED IN THIS QUARTERLY REPORT ON FORM 10-Q HAD THIRTEEN WEEKS.

OVERVIEW

Silicon Laboratories designs and develops proprietary, analog-intensive, mixed-signal integrated circuits, or ICs, for the rapidly growing communications industry. Our innovative ICs can dramatically reduce the cost, size and system power requirements of the products that our customers sell to their end-user customers. We currently offer ICs that can be incorporated into communications devices, such as modems and cellular phones, as well as cable and satellite set-top boxes, credit card verification machines, automated teller machines, network access equipment and remote gaming devices.

Our company was founded in 1996. Our business has grown rapidly since our inception, as reflected by our employee headcount, which increased to 211 employees at July 1, 2000 from 148 at the end of fiscal 1999, 42 at the end of fiscal 1998, and 17 at the end of fiscal 1997. As a "fabless" semiconductor company, we rely on third-party semiconductor fabricators to manufacture the silicon wafers that reflect our IC designs. Each wafer contains numerous die, which are cut from the wafer to create a chip for an IC. We also rely on third-party assemblers to assemble and package these die prior to final product testing and shipping.

Our first IC product, the direct access arrangement, or DAA, had its first commercial shipment in April 1998. Based on the success of our DAA products, we became profitable in the fourth quarter of fiscal 1998 and have been profitable in each succeeding quarter through the quarter ended July 1, 2000. Substantially all of our sales to date have been derived from sales of our various DAA products and we expect to remain dependent on continued sales of DAA products for a majority of our sales until we are able to diversify sales with new products.

To date, substantially all of our sales have been generated through our direct sales force. In fiscal 1998, we began to establish a network of independent sales representatives and distributors worldwide to support our sales and marketing activities. We anticipate that sales to these representatives and distributors will increase as a percentage of our sales in future periods. However, we expect to continue to experience significant customer concentration in direct sales to key customer accounts until we are able to diversify sales with new customers.

The sales cycle for the test and evaluation of our ICs can range from 1 to 12 months or more. An additional 3 to 6 months or more may be required before a customer ships a significant volume of devices that incorporate our ICs. Due to this lengthy sales cycle, we may experience a significant delay between incurring expenses for research and development and selling, general and administrative efforts, and the generation of corresponding sales, if any. We intend to continue to increase our investment in research and development, selling, general and administrative functions and inventory as we expand our operations in the future. Consequently, if sales in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our operating results for that quarter and, potentially, future quarters would be adversely affected.

Our limited operating history and rapid growth make it difficult for us to assess the impact of seasonal factors on our business. Because many of our ICs are designed for use in consumer products such as PCs and cellular telephones, we expect that the demand for our products will be subject to seasonal demand resulting in increased sales in the third and fourth quarters of each year when customers place orders to meet holiday demand. We expect to experience seasonal fluctuations in the demand for our products as customer demand increases in greater volume across our product offerings.

The following describes the line items set forth in our consolidated statements of income:

SALES. Sales consists of revenue generated by sales of our ICs. Generally, we recognize sales upon title transfer to our customers. Sales are deferred on shipments to distributors until they are resold by such distributors. Our products typically carry a one-year warranty. Since our inception, product returns and warranty costs have not been significant. Our sales are subject to variation from period to period due to the volume of shipments made within a period and the prices we charge for our products. The vast majority of our sales were conducted at prices that reflect a discount from the list prices for our products. These discounts are made for a variety of reasons, including to establish a relationship with a new customer, as an incentive for customers to purchase products in larger volumes or in response to competition. In addition, as a product matures, we expect that the average selling price for that product will decline. Therefore, our ability to increase sales in the future is dependent on increased demand for our established products and our ability to ship larger volumes of products in response to such demand, as well as customer acceptance of newly introduced products.

COST OF GOODS SOLD. Cost of goods sold includes the cost of purchasing finished silicon wafers processed by independent foundries; costs associated with assembly, test and shipping of those products; costs of personnel and equipment associated with manufacturing support, logistics and quality assurance; an allocated portion of our occupancy costs; and allocable depreciation of testing equipment. Generally, we depreciate equipment over four years on a straight line basis. We also depreciate our leasehold improvements over the applicable lease term. Recently introduced products tend to have higher cost of goods sold per unit due to initially low production volumes required by our customers and higher costs associated with new package variations. Generally, as production volumes for a product increase, unit production costs tend to decrease as our semiconductor fabricators and assemblers achieve greater economies of scale for that product. Additionally, the cost of wafer procurement, which is a significant component of cost of goods sold, varies cyclically with overall demand for semiconductors. The semiconductor industry has recently experienced a period of high demand, resulting in higher wafer procurement costs.

RESEARCH AND DEVELOPMENT. Research and development expense consists primarily of compensation and related costs of employees engaged in research and development activities, as well as an allocated portion of our occupancy costs for such operations. We depreciate our research and development equipment over four years and amortize our purchased software from computer-aided design tool vendors over four years. Development activities include the creation

of test methodologies to assure compliance with required specifications. We have granted stock options or directly issued stock to patent attorneys and outside technical consultants for services previously rendered. We recognize stock-based compensation expense for these non-employees based on the deemed fair value of the options or stock at the date of grant. We have issued a warrant to a university's Electrical Engineering Department to support mixed signal analog intensive integrated circuit design activities. We recognized expense for this warrant based on the deemed fair value of the warrant at the date of grant.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense consists primarily of personnel-related expenses, related allocable portion of our occupancy costs, sales commissions to independent sales representatives, professional fees, other promotional and marketing expenses and reserves for bad debt. Write-offs of bad debt have been insignificant to date. We awarded stock to non-employee sales persons in connection with a sales incentive program that ended on January 1, 2000. We recognize stock-based compensation expense for these non-employees based on the deemed fair value of the stock at the date of grant.

AMORTIZATION OF DEFERRED STOCK COMPENSATION. In connection with the grant of stock options and direct issuances of stock to our employees prior to our initial public offerring, we recorded deferred stock compensation of approximately $16.3 million, representing, for accounting purposes, the difference between the deemed fair value of the common stock and the respective exercise prices at the date of grant in the case of stock options and the fair market value of the stock at the date of grant in the case of direct issuances of stock. Since the initial public offering, we have recorded additional deferred stock compensation of $833,000 on the same basis. The deferred stock compensation is amortized over the vesting period of the applicable options or shares, generally five to eight years. The amortization of deferred stock compensation is recorded as an operating expense.

INTEREST INCOME. Interest income reflects interest earned on average cash and cash equivalents and investment balances.

INTEREST EXPENSE. Interest expense consists of interest on our long-term debt and capital lease obligations.

INCOME TAX EXPENSE. We accrue a provision for federal and state income tax at the Company's estimated effective tax rate.

RESULTS OF OPERATIONS

The following table sets forth our statement of operations data as a percentage of sales for the periods indicated:

	(Unaudited)			
	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JULY 1, 2000	JULY 3, 1999	JULY 1, 2000	JULY 3, 2000
Sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	34.5	38.0	34.4	38.1
Gross profit	65.5	62.0	65.6	61.9
Operating expenses:				
Research and development	18.3	21.2	18.2	20.8
Selling, general and administrative	17.9	19.9	17.2	19.0
Amortization of deferred stock compensation	3.2	1.5	3.6	1.1
Total operating expenses	39.4	42.6	39.0	40.9
Operating income	26.1	19.4	26.6	21.0
Interest income	5.2	1.0	3.4	1.0
Interest expense	1.4	1.9	1.4	1.9
Income before tax expense	29.9	18.5	28.6	20.1
Income tax expense	12.5	4.3	12.2	4.7
Net income	17.4%	14.2%	16.4%	15.4%

COMPARISON OF THE THREE AND SIX MONTHS ENDED JULY 1, 2000 TO THE THREE AND SIX MONTHS ENDED JULY 3, 2000

SALES. Sales for the three months ended July 1, 2000 were $24.3 million, an increase of $16.8 million or 224% from sales of $7.5 million in the three months ended July 3, 1999. Sales for the six months ended July 1, 2000 were $44.0 million, an increase of $30.1 million or 217% from sales of $13.9 million in the six months ended July 3, 1999. The increases were principally attributable to the continued strong acceptance of our DAA family of products, including our international DAA products. The increases reflected both an increase in the number of customers that purchased our IC products and an increase in the volume that those customers bought.

GROSS PROFIT. Gross profit for the three months ended July 1, 2000 was $15.9 million or 65.5% of sales, an increase of $11.2 million as compared with gross profit of $4.7 million or 62.0% of sales in the three months ended July 3, 1999. Gross profit for the six months ended July 1, 2000 was $28.8 million or 65.6% of sales, an increase of $20.2 million as compared with gross profit of $8.6 million or 61.9% of sales in the six months ended July 3, 1999. The increases in gross profit in both cases was primarily due to the substantial increase in sales volume and the increased utilization of less expensive internal testing of product. These factors were partially offset by higher depreciation expense related to significantly higher internal test floor capacity. Our gross margins may decline due to the expected introduction of competitive products to the market and increased demand for silicon wafer capacity within the semiconductor industry generally. However, the impact of these factors on our gross margins may be offset by increased sales of newly introduced products. We expect many of our new products will have larger gross margins than products which have been in the market for longer periods of time and that face greater competition as a result.

RESEARCH AND DEVELOPMENT. Research and development expense for the three months ended July 1, 2000 was $4.4 million or 18.3% of sales, an increase of $2.8 million or 175% as compared with research and development expense of $1.6 million or 21.2% of sales for the three months ended July 3, 1999. Research and development expense for the six months ended July 1, 2000 was $8.0 million or 18.2% of sales, an increase of $5.1 million or 176% as compared with research and development expense of $2.9 million or 20.8% of sales for the six months ended July 3, 1999. The increase in the dollar amount of research and development expense was principally due to continued product development activities, significant increases in new product development initiatives, and increased spending to develop test methodologies for new products. The decrease in research and development expense as a percentage of sales reflected our modest sales in the three and six months ended July 3, 1999 as compared to substantial sales growth in the three and six months ended July 1, 2000. We expect that research and development expense will increase in absolute dollars in future periods as we develop new ICs, and may fluctuate as a percentage of sales due to significant changes in our sales volume and new product development initiatives.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense increased $2.9 million or 193%, to $4.4 million in the quarter ended July 1, 2000 from $1.5 million in the quarter ended July 3, 1999, and represented 17.9% of sales in the quarter ended July 1, 2000 and 19.9% of sales in the quarter ended July 3, 1999. Selling, general and administrative expense for the six months ended July 1, 2000 was $7.5 million or 17.2% of sales, an increase of $4.9 million or 189% as compared with selling, general and administrative expense of $2.6 million or 19.0% of sales for the six months ended July 3, 1999. The increase in the dollar amount of selling, general and administrative expense was principally attributable to increased staffing. Additionally, we incurred $740,000 in patent litigation expenses in the three months ended July 1, 2000 related to a lawsuit we filed against Analog Devices and 3Com on January 12, 2000 (See "Part II, Other Information, Item 1. Legal Proceedings"). The decrease in selling, general and administrative expense as a percentage of sales was due to substantially higher sales levels in the three and six months ended July 1, 2000. We expect that selling, general and administrative expense will increase in absolute dollars in future periods as we expand our sales channels, marketing efforts and administrative infrastructure. We also expect our legal expenses to continue as a result of the pending lawsuit against Analog Devices and 3Com. This lawsuit may also cause our sales to 3Com to decline. 3Com accounted for 5% of our sales in the six months ended July 1, 2000. In addition, we expect selling, general and administrative expense to fluctuate as a percentage of sales because of (1) the likelihood that indirect distribution channels, which entail the payment of commissions, will account for a larger portion of our sales in future periods and, therefore, increase our selling, general and administrative expense relative to a direct sales force performing at satisfactory levels of productivity; (2) fluctuating usage of advertising to promote our products and, in particular, our newly introduced products; and (3) potential significant variability in our future sales volume.

AMORTIZATION OF DEFERRED STOCK COMPENSATION. We have recorded deferred stock compensation for the difference between the exercise price of option grants, or the issuance price of direct issuances of stock, and the deemed fair value of our common stock at the time of such grants or issuances. We are amortizing this amount over the vesting periods of the applicable options or restricted stock, which resulted in amortization expense of $787,000 and $1.6 million for the three and six months ended July 1, 2000 as compared to $116,000 and $149,000 for the three and six months ended July 3, 1999.

INTEREST INCOME. Interest income for the three and six months ended July 1, 2000 was $1.3 million and $1.5 million as compared to $75,000 and $138,000 for the three and six months ended July 3,

1999. The net proceeds from our initial public offering of our common stock, which were received on March 29, 2000, contributed to the increase in interest income.

INTEREST EXPENSE. Interest expense for the three and six months ended July 1, 2000 was $342,000 and $618,000 as compared to $140,000 and $260,000 for the three and six months ended July 3, 1999. The increase in interest expense was primarily due to higher levels of debt and lease financing used to finance capital expenditures, particularly relating to the acquisition of IC testing equipment and leasehold improvements.

INCOME TAX EXPENSE. Our effective tax rate was 42.1% and 42.7% for the three and six months ended July 1, 2000 as compared to 23.1% in both the three months and six months ended July 3, 1999. Our pro forma tax rate after excluding the amortization of deferred stock compensation, which is not tax deductible, would be 38% for the three and six months ended July 1, 2000. The lower effective tax rate in 1999 also reflected net operating loss tax carryforwards that were available from our development stage operations which were used to offset a portion of our tax liability during the three and six months ended July 3, 1999. These net operating loss tax carryforwards were fully utilized during fiscal 1999. We anticipate that our effective tax rate may decline in the near term due to the investment of a substantial portion of the proceeds of our initial public offering in tax favored securities and the potential availability of research and development tax credits.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity as of July 1, 2000 consisted of $105.7 million in cash, cash equivalents and short-term investments and our bank credit facilities.

Our bank credit facilities include a revolving line of credit available for borrowings and letters of credit of up to the lesser of $3.0 million or 80% of eligible accounts receivable, a separate letter of credit facility for $454,000 related to a building lease, equipment loans for initial equipment financing and new loan facilities totaling $4.0 million for new equipment, leasehold improvements and computer-aided design software. At July 1, 2000, (1) a letter of credit for $500,000 related to a building lease was outstanding under the revolving line of credit, (2) the separate letter of credit for $454,000 was outstanding, (3) $1.0 million was outstanding under the equipment loans and (4) $3.5 million was outstanding under the new loan facilities. At July 1, 2000, $2.5 million was available under the revolving line of credit.

Borrowings under the revolving line of credit bear interest at the bank's prime rate, which was 9.5% at July 1, 2000, and are payable at annual renewal of the line. Borrowings under the equipment loan agreement bear interest at the bank's prime rate, and are payable through January 2002. Borrowings under the new loan facilities in (3) above bear interest at the bank's prime rate and are payable through September 2003. All bank facilities are secured by our accounts receivable, inventories, capital equipment and all other unsecured assets (excluding intellectual property). The line of credit, the separate letter of credit facility and equipment loans contain provisions that prohibit the payment of cash dividends and require the maintenance of tangible net worth and compliance with financial ratios, which measure our immediate liquidity and our ongoing ability to pay back our outstanding obligations. Any default on one of the bank facilities will cause all of the bank facilities to be in default under these agreements. The bank has received warrants as consideration for providing portions of this financing.

We also have entered into agreements with three institutional lenders for equipment financing to purchase or lease equipment, leasehold improvements and software. We borrowed $8.2 million under these agreements. At July 1, 2000, the amount outstanding under these agreements was $5.3 million. This indebtedness bears effective interest rates (including end-of-term interest payments of $1.1 million) ranging from 12.5% to 14.6% per annum and is secured by a security interest in specific items, principally comprised of test equipment, and is repayable over approximately the next four years.

Prior to receiving the net proceeds from our initial public offering, we funded our operations primarily through sales of preferred stock which resulted in gross aggregate proceeds to us of

approximately $12.8 million, and debt financing under the credit and lease obligations described above and cash from operations. We raised $90.8 million through our initial public offering in March 2000. During the six months ended July 1, 2000, cash provided by operating activities was $5.0 million as compared to cash provided by operating activities of $989,000 during the six months ended July 3, 1999.

Due to the nature of our business, we experience working capital needs in the areas of accounts receivable and inventory. Typically, we bill our customers on an open account basis on net 30- day terms or other specific terms that may vary from account to account as individually negotiated with customers. As of July 1, 2000, we had an accounts receivable balance of $10.6 million dollars. If sales levels were to increase, it is likely that the level of receivables would also increase. In the event that customers delayed their payments to us, the levels of accounts receivable would also increase. In the area of inventory, we find that in order to maintain an adequate supply of product to customers, we must carry a certain level of inventory. This inventory level may vary based principally upon either orders received from customers or our forecast of demand for these products. Other considerations in determining inventory levels may include the product life cycle stage of our products and competitive situations in the marketplace. Such considerations are balanced against risk of obsolescence or potentially excess inventory levels. As of July 1, 2000, we had inventory of $6.8 million which we deemed adequate to address these considerations.

Capital expenditures were $8.4 million for the six months ended July 1, 2000 and $2.6 million in the six months ended July 3, 1999. The expenditures in the recent quarter were incurred to purchase semiconductor test equipment, design software and engineering tools, other computer equipment, leasehold improvements and software to support our business expansion. We anticipate capital expenditures in the remainder of fiscal 2000 of approximately $9.6 million primarily to fund test floor operations and capital expenditures associated with expanded engineering product development activities.

Our future capital requirements will depend on many factors, including the rate of sales growth, market acceptance of our products, the timing and extent of research and development projects and the expansion of our sales and marketing activities. On June 22, 2000, we entered into an agreement to acquire Krypton Isolation, Inc. pursuant to which we have agreed to pay $42 million in cash and common stock (estimated using the value of our common stock on such date, and subject to further adjustment). In addition, we expect to spend additional capital to integrate the operations of Krypton Isolation, Inc. and this will reduce our available capital resources. We believe the net proceeds received from our initial public offering, together with our existing cash balances, credit facilities and cash generated by our operations, are sufficient to meet our capital requirements through at least the next 12 months, although we could be required, or could elect, to seek additional funding prior to that time. We may enter into other acquisitions or strategic arrangements in the future which also could require us to seek additional equity or debt financing. There can be no assurances that additional equity or debt financing, if required, will be available to us on acceptable terms or at all.

RECENT ACCOUNTING PRONOUNCEMENTS

Stock Based Compensation

On March 31, 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, ACCOUNTING FOR CERTAIN TRANSACTIONS INVOLVING STOCK COMPENSATION, an interpretation of APB Opinion No. 25. The interpretation clarifies guidance for certain issues that arose in the application of APB Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES. The interpretation will be applied prospectively to new awards, modifications to outstanding awards,

and changes in employee status on or after July 1, 2000, except as follows: (i) requirements related to the definition of an employee apply to new awards granted after December 15, 1998; (ii) modifications that directly or indirectly reduce the exercise price of an award apply to modifications made after December 15, 1998; and (iii) modifications to add a reload feature to an award apply to modifications made after January 12, 2000. The Company is evaluating the effect the application of the interpretation will have on the financial statements.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are in short-term instruments. Due to the nature of our short-term investments, we have concluded that there is no material market risk exposure.

RISKS RELATED TO OUR BUSINESS

WE DEPEND ON A LIMITED NUMBER OF CUSTOMERS FOR THE VAST MAJORITY OF OUR SALES, AND THE LOSS OF, OR A SIGNIFICANT REDUCTION IN ORDERS FROM, ANY KEY CUSTOMER COULD SIGNIFICANTLY REDUCE OUR SALES

In fiscal 1999, our four largest customers, in the aggregate, accounted for approximately 92% of our sales. Of these customers, PC-Tel accounted for 62%, SmartLink for 12%, 3Com for 10% and Motorola for 8% of our fiscal 1999 sales. Our operating results in the foreseeable future will continue to depend on sales to a relatively small number of customers, as well as the ability of these customers to sell products that use our integrated circuit, or IC, products. In the future, these customers may decide not to purchase our ICs at all, purchase fewer ICs than they did in the past or alter their purchasing patterns, particularly because:

- we do not have any material long-term purchase arrangements or contracts with these or any of our other customers;
- substantially all of our sales to date have been made on a purchase order basis, which permits our customers to cancel, change or delay product purchase commitments with little or no notice to us and without penalty; and
- some of our customers have sought or are seeking relationships with current or potential competitors which may affect our customers' purchasing decisions.

While we have been the sole supplier of the direct access arrangement, or DAA, IC used in PC-Tel's products, we believe PC-Tel has qualified a second source for its DAA IC requirements and may seek to qualify additional sources in the future. We believe PC-Tel has qualified this second source and may qualify additional sources in the future in order to diversify its supplier base which would increase its negotiating leverage with us and protect its ability to secure DAA components. With minor modifications to PC-Tel's products, our competitors' DAA products could be incorporated in PC-Tel's products. We have a volume purchase agreement with PC-Tel, but the agreement does not require PC-Tel to purchase any minimum number of units from us during fiscal 2000. We believe that any second source of DAA ICs for PC-Tel could have an adverse effect on the prices we are able to charge PC-Tel and the volume of DAA ICs that we sell to PC-Tel, which would negatively affect our sales and operating results.

On January 12, 2000, we filed a lawsuit against Analog Devices and 3Com claiming that Analog Devices has infringed, and is continuing to infringe, one of our issued U.S. patents with

respect to our DAA technology and that Analog Devices and 3Com have misappropriated our confidential information, know-how and trade secrets. On February 24, 2000, 3Com filed an answer denying it has misappropriated our confidential information, know how and trade secrets and, without specifying, asserted we have acted with unclean hands. Although 3Com, which is one of our key customers, may decide to cease purchasing direct access arrangement ICs from Analog Devices as a result of this suit, it is possible that 3Com may respond by ceasing its purchase of our DAA products. The loss of sales to 3Com could have a material adverse effect on our sales and operating results. 3Com accounted for 5% of our sales during the six months ended July 1, 2000.

On March 21, 2000, 3Com announced a strategic alliance with Accton Technology and Nat Steel Electronics. The three companies will form a new company that will be responsible for the design, marketing and sales of Internet access products, including the 3Com products which currently incorporate our DAA IC's. If we are unable to establish and maintain a supplier relationship with this new company, our operating results could be adversely affected.

The loss of any of our key customers, or a significant reduction in sales to any one of them, would significantly reduce our sales and adversely affect our business.

WE HAVE DEPENDED ON OUR DIRECT ACCESS ARRANGEMENT, OR DAA, FAMILY OF PRODUCTS FOR SUBSTANTIALLY ALL OF OUR SALES TO DATE, AND SIGNIFICANT REDUCTIONS IN ORDERS FOR DAA PRODUCTS WOULD SIGNIFICANTLY REDUCE OUR SALES

Substantially all of our sales to date have been derived from sales of our DAA family of ICs. Until we are able to diversify our sales through the introduction of new products, we will continue to rely on sales of our DAA products. Reduced market acceptance of our DAA products or the introduction of products with superior price/performance characteristics by our competitors could significantly reduce our sales. In addition, substantially all of our DAA products that we have sold include technology related to one or more of our issued U.S. patents. If these patents are found to be invalid or unenforceable, our competitors could introduce competitive products that could reduce both the volume and price per unit of our products.

WE DEPEND ON OUR CUSTOMERS TO SUPPORT OUR PRODUCTS

Our DAA products are currently used by our customers to produce modems for the personal computer market. We rely on our customers to provide software and other technical support for the modems that use our DAA products. If our customers' software does not provide the required functionality or if our customers do not provide satisfactory support for their modem products, the demand for modems that incorporate our DAA products may diminish. Any reduction in the demand for modems would significantly reduce our sales.

IF WE ARE UNABLE TO DEVELOP NEW AND ENHANCED PRODUCTS THAT ACHIEVE MARKET ACCEPTANCE IN A TIMELY MANNER, OUR OPERATING RESULTS AND COMPETITIVE POSITION COULD BE HARMED

We currently sell only our DAA products in commercial quantities. Our future success will depend on our ability to reduce our dependence on our DAA products by developing new ICs and product enhancements that achieve market acceptance in a timely and cost-effective manner. The development of mixed-signal ICs is highly complex, and we occasionally have experienced delays in completing the development and introduction of new products and product enhancements. Successful product development and market acceptance of our products depend on a number of factors, including:

- changing requirements of customers within the wireline and wireless communications markets;

- accurate prediction of market requirements;

- timely completion and introduction of new designs;

- timely qualification and certification of our ICs for use in our customers' products;

- commercial acceptance and volume production of the products into which our ICs will be incorporated;

- availability of foundry and assembly capacity;

- achievement of high manufacturing yields;

- quality, price, performance, power use and size of our products;

- availability, quality, price and performance of competing products and technologies;

- our customer service and support capabilities and responsiveness;

- successful development of our relationships with existing and potential customers; and

- changes in technology, industry standards or end-user preferences.

We cannot provide any assurance that new products which we recently have developed or may develop in the future will achieve market acceptance. We have recently introduced to market three new ICs:

- an RF synthesizer, which is used to generate high frequency signals that are used in wireless communications systems to select a particular radio channel;

- an ISOmodem, which is a miniaturized modem that can be embedded in electronic devices with low transmission requirements, such as credit card verification devices, to provide quick network access; and

- a ProSLIC product, which provides dial tone, busy tone, caller ID and ring signal functions at the source end of the telephone.

We also are actively developing other ICs. If our recently introduced or other ICs fail to achieve market acceptance, our operating results and competitive position could be adversely affected.

DUE TO OUR LIMITED OPERATING HISTORY, WE MAY HAVE DIFFICULTY BOTH IN ACCURATELY PREDICTING OUR FUTURE SALES AND APPROPRIATELY BUDGETING FOR OUR EXPENSES

We were incorporated in 1996 and did not begin generating sales until the second quarter of 1998. As a result, we have only a short history from which to predict future sales. This limited operating experience combined with the rapidly evolving nature of the markets in which we sell our products, as well as other factors which are beyond our control, reduce our ability to accurately forecast quarterly or annual sales. Additionally, because most of our expenses are fixed in the short term or incurred in advance of anticipated sales, we may not be able to decrease our expenses in a timely manner to offset any shortfall of sales. We are currently expanding our staffing and increasing our expense levels in anticipation of future sales growth. If our sales do not increase as anticipated, significant losses could result due to our higher expense levels.

WE RELY ON THIRD PARTIES TO MANUFACTURE AND ASSEMBLE OUR PRODUCTS AND THE FAILURE TO SUCCESSFULLY MANAGE OUR RELATIONSHIPS WITH OUR MANUFACTURERS AND ASSEMBLERS WOULD NEGATIVELY IMPACT OUR ABILITY TO SELL OUR PRODUCTS

We do not have our own manufacturing facilities. Therefore, we must rely on third-party vendors to manufacture the ICs we design. We also currently rely on two third-party assembly contractors, Advanced Semiconductor Engineering and Amkor, to assemble and package the silicon chips provided by the wafers for use in final products. Additionally, we rely on third-party vendors for a portion of the testing requirements of our products prior to shipping.

There are significant risks associated with relying on these third-party contractors, including:

- failure by us, our customers or their end customers to qualify a selected supplier;

- capacity shortages during periods of high demand;

- reduced control over delivery schedules and quality;

- limited warranties on wafers or products supplied to us; and

- potential increases in prices.

We currently do not have long-term supply contracts with any of our third-party vendors, and therefore, they are not obligated to perform services or supply products to us for any specific period, or in any specific quantities, except as may be provided in a particular purchase order. Although we believe that other semiconductor foundries or assembly contractors can adequately address our needs, we expect that it would take approximately two to six months to transition performance of these services from our current providers to new providers. Such a transition may also require a qualification process by our customers or their end customers. We generally place orders for products with some of our suppliers approximately four months prior to the anticipated delivery date, with order volumes based on our forecasts of demand from our customers. Accordingly, if we inaccurately forecast demand for our products, we may be unable to obtain adequate foundry or assembly capacity from our third-party contractors to meet our customers' delivery requirements, or we may accumulate excess inventories. On occasion, we have been unable to adequately respond to unexpected increases in customer purchase orders, and therefore, were unable to benefit from this incremental demand. None of our third-party foundry or assembly contractors have provided assurances to us that adequate capacity will be available to us within the time required to meet additional demand for our products.

From our inception through fiscal 1999, all of the silicon wafers for the products that we shipped were manufactured by Taiwan Semiconductor Manufacturing Co. To address capacity considerations, we have qualified Vanguard International Semiconductor, an affiliate of Taiwan Semiconductor Manufacturing Co., as an additional semiconductor fabricator. Our customers typically complete their own qualification process. Our customers may not elect to spend the time and expense necessary to put Vanguard through their qualification processes. Vanguard is currently producing on our behalf a majority of our current work in progress. If we fail to balance customer demand across semiconductor fabrications properly, we might not be able to fulfill demand for our products, which would adversely affect our operating results. Additionally, a resulting write-off of unusable inventories would contribute to a decline in earnings.

The semiconductor manufacturing process is highly complex and, from time to time, manufacturing yields may fall below our expectations which could result in our inability to timely satisfy demand for our products

The manufacture of silicon wafers for our products is a highly complex and technologically demanding process. Although we work closely with our foundries to minimize the likelihood of reduced manufacturing yields, our foundries from time to time have experienced lower than anticipated manufacturing yields. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials by our foundries could result in lower than anticipated manufacturing yields or unacceptable performance deficiencies. If our foundries fail to timely deliver fabricated silicon wafers of satisfactory quality, we will be unable to timely meet our customers' demand for our products, which would adversely affect our operating results and damage our customer relationships.

ANY ACQUISITIONS WE MAKE COULD DISRUPT OUR BUSINESS AND HARM OUR FINANCIAL CONDITION

As part of our growth strategy, we will continue to evaluate opportunities to acquire other businesses or technologies that would complement our current offerings, expand the breadth of our markets or enhance our technical capabilities. On June 22, 2000, we entered into an agreement to acquire Krypton Isolation, Inc. pursuant to which we have agreed to pay $42 million in cash and common stock based on the value of our common stock on such date (estimated using the value of our common stock on such date and subject to further adjustment). This acquisition and any potential future acquisitions entail a number of risks that could materially and adversely affect our business and operating results, including:

- problems integrating the acquired operations, technologies or products with our existing business and products;

- diversion of management's time and attention from our core business;

- difficulties in retaining business relationships with suppliers and customers of the acquired company;

- risks associated with entering markets in which we lack prior experience; and

- potential loss of key employees of the acquired company.

OUR CURRENT MANUFACTURERS AND ASSEMBLERS ARE CONCENTRATED IN THE SAME GEOGRAPHIC REGION WHICH INCREASES THE RISK THAT A NATURAL DISASTER, LABOR STRIKE, WAR OR POLITICAL UNREST COULD DISRUPT OUR OPERATIONS

Our current semiconductor manufacturers are located in the same region within Taiwan and our assembly contractors are located in the Pacific Rim region. The risk of earthquakes in Taiwan and the Pacific Rim region is significant due to the proximity of major earthquake fault lines in the area. In September 1999, our current semiconductor manufacturers' principal facilities were affected by a significant earthquake in Taiwan. As a consequence of this earthquake, these manufacturers suffered power outages and disruption that impaired their production capacity. We have filed an insurance claim for $1.2 million under our contingent business interruption insurance policy for the business disruption that we sustained as a result of this earthquake. However, we do not know whether this claim will be paid in full or at all in order to compensate us for this disruption. The policy under which this claim was made has since expired, and we are not currently covered by insurance against business disruption caused by earthquakes as such insurance is not currently available on terms that we believe are commercially reasonable. Earthquakes, fire, flooding or other natural disasters in Taiwan or the Pacific Rim region, or political unrest, war, labor strikes or work stoppages in countries where our semiconductor manufacturers' and assemblers' facilities are located, likely would result in the disruption of our foundry or assembly capacity. Any disruption resulting from these events could cause significant delays in shipments of our products until we are able to shift our manufacturing or assembling from the affected contractor to another third-party vendor. There can be no assurance that such alternate capacity could be obtained on favorable terms, if at all.

WE ARE SUBJECT TO INCREASED INVENTORY RISKS AND COSTS BECAUSE WE BUILD OUR PRODUCTS BASED ON FORECASTS PROVIDED BY CUSTOMERS BEFORE RECEIVING PURCHASE ORDERS FOR THE PRODUCTS

In order to assure availability of our products for some of our largest customers, we start the manufacturing of our products in advance of receiving purchase orders based on forecasts provided by these customers. However, these forecasts do not represent binding purchase commitments and we do not recognize sales for these products until they are shipped to the customer. As a result, we incur inventory and manufacturing costs in advance of anticipated sales. Because demand for our products may not materialize, manufacturing based on forecasts subjects us to increased risks of high inventory carrying costs and increased obsolescence and may increase our operating costs.

WE MAY NOT BE ABLE TO MAINTAIN OUR EXISTING GROWTH RATE

Although we have experienced sales and earnings growth in our recent quarterly and annual periods, we may not be able to sustain these growth rates. In particular, we may gain significant market share in a relatively short period of time following the introduction of a new product, resulting in sales growth. However, incremental gains in market share for these newly introduced products may not occur. Accordingly, you should not rely on the results of any prior quarterly or annual periods as an indication of our future operating performance.

WE MAY EXPERIENCE SIGNIFICANT PERIOD-TO-PERIOD QUARTERLY AND ANNUAL FLUCTUATIONS IN OUR SALES AND OPERATING RESULTS, WHICH MAY RESULT IN VOLATILITY IN OUR STOCK PRICE

We may experience significant period-to-period fluctuations in our sales and operating results in the future due to a number of factors, and any such variations may cause our stock price to fluctuate. It is likely that in some future period our operating results will be below the expectations of public market analysts or investors. If this occurs, our stock price may drop, perhaps significantly.

A number of factors, in addition to those cited in other risk factors applicable to our business, may contribute to fluctuations in our sales and operating results, including:

- the timing and volume of orders from our customers;
- the rate of acceptance of our products by our customers, including the acceptance of new products we may develop for integration in the products manufactured by such customers, which we refer to as "design wins";
- the demand for and life cycles of the products incorporating our ICs;
- the rate of adoption of mixed-signal ICs in the markets we target;
- deferrals of customer orders in anticipation of new products or product enhancements from us or our competitors or other providers of ICs;
- changes in product mix; and
- the rate at which new markets emerge for products we are currently developing or for which our design expertise can be utilized to develop products for these new markets.

For example, the personal computer modem market is characterized by rapid fluctuations in demand which results in corresponding fluctuations in the demand for our DAA products that are incorporated in personal computer modems. Additionally, the rate of technology acceptance by our customers results in fluctuating demand for our products as customers are reluctant to incorporate a new IC into their products until the new IC has achieved market acceptance. However, once a new IC achieves market acceptance, demand for the new IC quickly accelerates and demand quickly declines for the product that the new IC replaces.

WE ARE A RELATIVELY SMALL COMPANY WITH LIMITED RESOURCES COMPARED TO SOME OF OUR CURRENT AND POTENTIAL COMPETITORS AND WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY AND INCREASE MARKET SHARE

Some of our current and potential competitors have longer operating histories, significantly greater resources and name recognition and a larger base of customers than we have. As a result, these competitors may have greater credibility with our existing and potential customers. They also may be able to adopt more aggressive pricing policies and devote greater resources to the development, promotion and sale of their products than we can to ours. In addition, some of our current and potential competitors have already established supplier or joint development relationships with the decision makers at our current or potential customers. These competitors may be able to leverage their existing relationships to discourage their customers from purchasing products from us or persuade them to replace our products with their products. Our competitors may also offer bundled chipset kit arrangements offering a more complete product despite the technical merits or advantages of our products. These competitors may elect not to support our products which could complicate our sales efforts.

In addition, our largest competitors may restructure their operations to create separate companies that are more focused on providing the types of products we produce. For example, Rockwell's restructuring led to the creation of Conexant which is a significant competitor. Additionally, Siemens spun off its semiconductor business to create a more focused company named Infineon Technologies. Increased competition could decrease our prices, reduce our sales, lower our margins or decrease our market share. These and other competitive pressures may

prevent us from competing successfully against current or future competitors, and may materially harm our business.

WE DEPEND ON OUR KEY PERSONNEL TO MANAGE OUR BUSINESS EFFECTIVELY IN A RAPIDLY CHANGING MARKET, AND IF WE ARE UNABLE TO RETAIN OUR CURRENT PERSONNEL AND HIRE ADDITIONAL PERSONNEL, OUR ABILITY TO DEVELOP AND SUCCESSFULLY MARKET OUR PRODUCTS COULD BE HARMED

We believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, engineering and sales and marketing personnel. Specifically, due to the relatively early stage of our company's business, we believe that our future success is highly dependent on Navdeep Sooch, our co-founder, Chief Executive Officer and Chairman of the Board, Jeffrey Scott, our co-founder and Vice President of Engineering, and David Welland, our co-founder and Vice President of Technology. We do not have employment contracts with these or any other key personnel. There is currently a shortage of qualified personnel with significant experience in the design, development, manufacturing, marketing and sales of analog and mixed-signal communications ICs. In particular, there is a shortage of engineers who are familiar with the intricacies of the design and manufacturability of analog elements, and competition for such personnel is intense. Our key technical personnel represent a significant asset and serve as the source of our technological and product innovations. We may not be successful in attracting and retaining sufficient numbers of technical personnel to support our anticipated growth. The loss of any of our key employees or the inability to attract or retain qualified personnel, including engineers and sales and marketing personnel, could delay the development and introduction of, and negatively impact our ability to sell, our products.

OUR RESEARCH AND DEVELOPMENT EFFORTS ARE FOCUSED ON A LIMITED NUMBER OF NEW TECHNOLOGIES AND PRODUCTS, AND ANY DELAY IN THE DEVELOPMENT, OR ABANDONMENT, OF THESE TECHNOLOGIES OR PRODUCTS BY INDUSTRY PARTICIPANTS, OR THEIR FAILURE TO ACHIEVE MARKET ACCEPTANCE, COULD COMPROMISE OUR COMPETITIVE POSITION

Our ICs are used as components in communications devices in the wireline and wireless markets. As a result, we have devoted and expect to continue to devote a large amount of resources to develop products based on new and emerging technologies and standards that will be commercially introduced in the future. In the first six months of fiscal 2000, our research and development expense was $8.0 million, which represented 18.3% of our sales compared to $2.9 million, or 20.9% of our sales for the first six months of fiscal year 1999. A number of large companies in the wireline and wireless communications industries are actively involved in the development of these new technologies and standards. Should any of these companies delay or abandon their efforts to develop commercially available products based on new technologies and standards, our research and development efforts with respect to these technologies and standards likely would have no appreciable value. In addition, if we do not correctly anticipate new technologies and standards, or if the products that we develop based on these new technologies and standards fail to achieve market acceptance, our competitors may be better able to address market demand than would we. Furthermore, if markets for these new technologies and standards develop later than we anticipate, or do not develop at all, demand for our products that are currently in development would suffer, resulting in lower sales of these products than we currently anticipate. We have introduced to market a RF synthesizer product for use in cellular phones operating on the Global System for Mobile Communications, or GSM, standard. The RF synthesizer is also compatible with General Packet Radio Service, which is the emerging data communications protocol for GSM based cellular phones. We cannot be certain whether manufacturers of cellular phones using these standards will incorporate our RF synthesizer or that these standards will not change, thereby making our products unsuitable or impractical.

OUR PRODUCTS ARE COMPLEX AND MAY REQUIRE MODIFICATIONS TO RESOLVE UNDETECTED ERRORS WHICH COULD LEAD TO AN INCREASE IN OUR COSTS OR A REDUCTION IN OUR SALES

Our products are complex and may contain errors when first introduced or as new versions are released. We rely primarily on our in-house testing personnel to design test operations and procedures to detect any errors prior to delivery of our products to our customers. Because our products are manufactured by third parties, should problems occur in the operation or performance of our ICs, we may experience delays in meeting key introduction dates or scheduled delivery dates to our customers. These errors also could cause us to incur significant re-engineering costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations and business reputation problems.

THE PERFORMANCE OF OUR DIRECT ACCESS ARRANGEMENT PRODUCTS MAY BE ADVERSELY AFFECTED BY SEVERE ENVIRONMENTAL CONDITIONS THAT MAY REQUIRE MODIFICATIONS, WHICH COULD LEAD TO AN INCREASE IN OUR COSTS OR A REDUCTION IN OUR SALES

Although our direct access arrangement products are compliant with published specifications, these established specifications might not adequately address all conditions that must be satisfied in order to operate in harsh environments. This includes environments where there are wide variations in electrical quality, telephone line quality, static electricity and operating temperatures or that may be affected by lightning or improper handling by customers and end users. Our products have had a limited period of time in the field under operation, and these environmental factors may result in unanticipated returns of our products. Any necessary modifications could cause us to incur significant re-engineering costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations and business reputation problems.

A SUBSTANTIAL PORTION OF THE FINAL TESTING OF OUR PRODUCTS IS PERFORMED INTERNALLY BY US, WHICH INCREASES OUR FIXED COSTS

In 1999, approximately 74% of our final product test operations were performed in-house. The balance of the final testing of our products is provided by our contract manufacturers or other third parties. During the three and six months ended July 1, 2000, substantially all of our final product test operations were performed in-house. While we believe performing this testing in-house provides us with advantages in terms of lower per unit cost, quality control and shorter time required to bring a product to market, we may encounter difficulties and delays in maintaining or expanding our internal test capabilities. In addition, final testing of complex semiconductors requires substantial resources to acquire state-of-the-art testing equipment and hiring additional qualified personnel, which has increased our fixed costs. If demand for our products does not support the effective utilization of these employees and additional equipment, we may not realize any benefit from replacing our outside vendors with internal final testing. Any decrease in the demand for our products could result in the underutilization of our testing equipment and personnel. If our internal test operations are underused or mismanaged, we may incur significant costs that could adversely affect our operating results.

WE PLAN TO INCREASE OUR INTERNATIONAL SALES ACTIVITIES SIGNIFICANTLY, WHICH WILL SUBJECT US TO ADDITIONAL BUSINESS RISKS INCLUDING INCREASED LOGISTICAL COMPLEXITY, POLITICAL INSTABILITY AND CURRENCY FLUCTUATIONS

We intend to open sales offices in international markets to expand our international sales activities in Europe and the Pacific Rim region. Our planned international sales growth will be limited if we are unable to hire additional personnel and develop relationships with international

distributors. We may not be able to maintain or increase international market demand for our products. Our international operations are subject to a number of risks, including:

- increased complexity and costs of managing international operations;
- protectionist laws and business practices that favor local competition in some countries;
- multiple, conflicting and changing laws, regulations and tax schemes;
- longer sales cycles;
- greater difficulty in accounts receivable collection and longer collection periods; and
- political and economic instability.

To date, all of our sales to international customers and purchases of components from international suppliers have been denominated in U.S. dollars. As a result, an increase in the value of the U.S. dollar relative to foreign currencies could make our products more expensive for our international customers to purchase, thus rendering them less competitive.

OUR INABILITY TO MANAGE GROWTH COULD MATERIALLY AND ADVERSELY AFFECT OUR BUSINESS

During the past 18 months, we have significantly increased the scope of our operations and expanded our workforce from 42 employees at January 2, 1999 to 211 employees at July 1, 2000. This growth has placed, and any future growth of our operations will continue to place, a significant strain on our management personnel, systems and resources. We anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems. We also expect that we will need to continue to expand, train, manage and motivate our workforce. All of these endeavors will require substantial management effort. If we are unable to effectively manage our expanding operations, our business could be materially and adversely affected.

WE MAY BE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY, WHICH WOULD NEGATIVELY AFFECT OUR ABILITY TO COMPETE

Our products rely on our proprietary technology, and we expect that future technological advances made by us will be critical to sustain market acceptance of our products. Therefore, we believe that the protection of our intellectual property rights is and will continue to be important to the success of our business. We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We also enter into confidentiality or license agreements with our employees, consultants and business partners, and control access to and distribution of our documentation and other proprietary information. Despite these efforts, unauthorized parties may attempt to copy or otherwise obtain and use our proprietary technology. Monitoring unauthorized use of our technology is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. We cannot be certain that patents will be issued as a result of our pending applications nor can we be certain that any issued patents would protect or benefit us or give us adequate protection from competing products. For example, issued patents may be circumvented or challenged and declared invalid or unenforceable. We also cannot be certain that others will not develop our unpatented proprietary technology or effective competing technologies on their own.

SIGNIFICANT LITIGATION OVER INTELLECTUAL PROPERTY IN OUR INDUSTRY MAY CAUSE US TO BECOME INVOLVED IN COSTLY AND LENGTHY LITIGATION WHICH COULD SERIOUSLY HARM OUR BUSINESS

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. From time to time, we receive letters from various industry participants alleging infringement of patents or trade secrets. The exploratory nature of these inquiries has become relatively common in the semiconductor industry. We typically respond when appropriate and as advised by legal counsel. We may become involved in litigation to protect our intellectual property rights or to defend allegations of infringement asserted by others. Legal proceedings could subject us to significant liability for damages or invalidate our proprietary rights. Legal proceedings initiated by us to protect our intellectual property rights could also result in counterclaims or countersuits against us. Any litigation, regardless of its outcome, would likely be time consuming and expensive to resolve and would divert our management's time and attention. Any intellectual property litigation also could force us to take specific actions, including:

- cease selling products that use the challenged intellectual property;

- obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or

- redesign those products that use infringing intellectual property.

On January 12, 2000, we filed a lawsuit against Analog Devices and 3Com claiming that Analog Devices has infringed, and is continuing to infringe, one of our issued U.S. patents with respect to our DAA technology and that Analog Devices and 3Com have misappropriated our confidential information, know-how and trade secrets. On January 26, 2000, Analog Devices served an answer denying that it has misappropriated our confidential information, know-how and trade secrets and brought a counterclaim against us seeking a declaratory judgment that our issued U.S. patent is invalid and unenforceable and that Analog Devices has not infringed our issued U.S. patent. We filed a reply to Analog Devices' counterclaim asserting that our issued U.S. patent is valid and enforceable and that Analog Devices has infringed our issued U.S. patent. On February 24, 2000, 3Com served an answer denying it has misappropriated our confidential information, know-how and trade secrets and, without specifying, asserted we have acted with unclean hands. Our lawsuit will involve significant expense and divert our management's time and attention from other aspects of our business. The lawsuit may also damage our business relationship with 3Com which accounted for 5% of our sales in the six months ended July 1, 2000, 10% of our sales in fiscal 1999 and 20% of our sales in fiscal 1998. Due to the inherent uncertainties of litigation, we cannot be certain of the outcome of this lawsuit.

FAILURE TO EXPAND OUR DISTRIBUTION CHANNELS AND MANAGE OUR DISTRIBUTION RELATIONSHIPS COULD IMPEDE OUR FUTURE GROWTH

The future growth of our business will depend in part on our ability to expand our existing relationships with distributors and sales representatives, develop additional channels for the distribution and sale of our products and manage these relationships. As part of our channel sales strategy, we intend to expand our relationships with distributors and sales representatives. As we develop our indirect sales capabilities, we will need to manage the potential conflicts that may arise with our direct sales efforts. The inability to successfully execute or manage a multi-channel sales strategy could impede our future growth.

RISKS RELATED TO OUR INDUSTRY

COMPETITION WITHIN THE NUMEROUS MARKETS WE TARGET MAY REDUCE SALES OF OUR PRODUCTS AND REDUCE MARKET SHARE

The markets for semiconductors in general, and for mixed-signal ICs in particular, are intensely competitive. We expect that the market for our products will continually evolve and will be subject to rapid technological change. In addition, as we target and supply products to numerous markets and applications, including wireline, wireless and other communications markets, we face competition from a relatively large number of competitors. Across all of our product areas, we compete with Advanced Micro Devices, Analog Devices, Conexant, Delta Integration, Fujitsu, Infineon Technologies, Krypton Isolation, National Semiconductor, Philips and Texas Instruments, among others. We expect to face competition in the future from our current competitors, other manufacturers and designers of semiconductors, and innovative start-up semiconductor design companies. Some of our customers, such as Intel, Lucent and Motorola, are also large, established semiconductor suppliers. Our sales to and support of these customers may enable them to become a source of competition to us, despite our efforts to protect our intellectual property rights. As the markets for communications products grow, we also may face competition from traditional communications device companies. These companies may enter the mixed-signal semiconductor market by introducing their own ICs or by entering into strategic relationships with or acquiring other existing providers of semiconductor products.

THE AVERAGE SELLING PRICES OF OUR PRODUCTS COULD DECREASE RAPIDLY WHICH MAY NEGATIVELY IMPACT OUR GROSS MARGINS AND SALES

We may experience substantial period-to-period fluctuations in future operating results due to the erosion of our average selling prices. We have reduced the average unit price of our products in anticipation of future competitive pricing pressures, new product introductions by us or our competitors and other factors. We expect that we will have to do so again in the future. If we are unable to offset any such reductions in our average selling prices by increasing our sales volumes, our gross profits and sales will suffer. To maintain gross margins, we will need to develop and introduce new products and product enhancements on a timely basis and continually reduce our costs. Our failure to do so would cause our sales and gross margins to decline.

OUR CUSTOMERS REQUIRE OUR PRODUCTS TO UNDERGO A LENGTHY AND EXPENSIVE QUALIFICATION PROCESS WHICH DOES NOT ASSURE PRODUCT SALES

Prior to purchasing our products, our customers require that our products undergo an extensive qualification process, which involves testing of the products in the customer's system as well as rigorous reliability testing. This qualification process may continue for six months or longer. However, qualification of a product by a customer does not assure any sales of the product to that customer. Even after successful qualification and sales of a product to a customer, a subsequent revision to the IC, changes in its manufacturing process or the selection of a new supplier by us may require a new qualification process, which may result in delays and in us holding excess or obsolete inventory. After our products are qualified, it can take an additional six months or more before the customer commences volume production of components or devices that incorporate our products. Despite these uncertainties, we devote substantial resources, including design, engineering, sales, marketing and management efforts, toward qualifying our products with customers in anticipation of sales. If we are unsuccessful or delayed in qualifying any of our products with a customer, such failure or delay would preclude or delay sales of such product to the customer, which may impede our growth and cause our business to suffer.

WE ARE SUBJECT TO THE CYCLICAL NATURE OF THE SEMICONDUCTOR INDUSTRY

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand. The industry has experienced significant downturns, often connected with, or in anticipation of, maturing product cycles of both semiconductor companies' and their customers' products and declines in general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. Any future downturns could have a material adverse effect on our business and operating results. Furthermore, any upturn in the semiconductor industry could result in increased competition for access to third-party foundry and assembly capacity. We are dependent on the availability of such capacity to manufacture and assemble our ICs. None of our third-party foundry or assembly contractors have provided assurances that adequate capacity will be available to us.

OUR PRODUCTS MUST CONFORM TO INDUSTRY STANDARDS IN ORDER TO BE ACCEPTED BY END USERS IN OUR MARKETS

Generally, our products comprise only a part of a communications device. All components of such devices must uniformly comply with industry standards in order to operate efficiently together. We depend on companies that provide other components of the devices to support prevailing industry standards. Many of these companies are significantly larger and more influential in effecting industry standards than we are. Some industry standards may not be widely adopted or implemented uniformly, and competing standards may emerge that may be preferred by our customers or end users. If larger companies do not support the same industry standards that we do, or if competing standards emerge, market acceptance of our products could be adversely affected which would harm our business.

Products for communications applications are based on industry standards that are continually evolving. Our ability to compete in the future will depend on our ability to identify and ensure compliance with these evolving industry standards. The emergence of new industry standards could render our products incompatible with products developed by other suppliers. As a result, we could be required to invest significant time and effort and to incur significant expense to redesign our products to ensure compliance with relevant standards. If our products are not in compliance with prevailing industry standards for a significant period of time, we could miss opportunities to achieve crucial design wins. We may not be successful in developing or using new technologies or in developing new products or product enhancements that achieve market acceptance. Our pursuit of necessary technological advances may require substantial time and expense.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Information related to quantitative and qualitative disclosures regarding market risk is set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations and the risk factors under Item 2 above. Such information is incorporated by reference herein.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On January 12, 2000, we filed a lawsuit against Analog Devices and 3Com in the United States District Court for the Western District of Texas (Austin Division). The complaint asserts that Analog Devices has infringed, and is continuing to infringe, our U.S. Patent 5,870,046, entitled "Analog Isolation System With Digital Communication Across A Capacitive Barrier," by making, using, selling, offering to sell and/or importing silicon DAAs that embody or use inventions claimed by our patent. The complaint also asserts, among other things, that Analog Devices and 3Com have misappropriated our confidential information, know-how and trade secrets relating to our DAA technology, tortuously interfered with our business relations with our existing and prospective customers, and been unjustly enriched by this misappropriation. The suit seeks unspecified damages from Analog Devices, including damages for willful infringement of our patent, and an injunction prohibiting Analog Devices from infringing our patent. In addition, the suit seeks unspecified damages, including punitive damages and attorneys' fees arising, among other things, out of the misappropriation, tortious interference and unjust enrichment, and an injunction prohibiting Analog Devices and 3Com from designing, manufacturing, reproducing, using or selling any ICs, modems or other products the conception, design or development of which was based on our confidential information, know-how and trade secrets.

On January 26, 2000, Analog Devices served an answer denying that it has misappropriated our confidential information, know-how and trade secrets and brought a counterclaim against us seeking a declaratory judgment that our issued U.S. patent is invalid and unenforceable and that Analog Devices has not infringed our issued U.S. patent. The counterclaim further alleges that we improperly failed to disclose a relevant pre-existing patent to the U.S. Patent and Trademark Office during the course of our patent application process, and that we therefore are unable to enforce our patent. We filed a reply to Analog Devices' counterclaim asserting that our issued U.S. patent is valid and enforceable and that Analog Devices has infringed our issued U.S. patent. We also denied that we improperly excluded any relevant information in the course of our patent application process.

On February 24, 2000, 3Com served an answer denying it has misappropriated our confidential information, know-how and trade secrets and, without specifying, asserted we have acted with unclean hands. This litigation is in the discovery phase and no trial date has been set by the trial court.

On May 22, 2000, Analog Devices filed a complaint in the United States District Court for the District of Massachusetts asserting that we have infringed on one of their patents. On June 26, 2000, Analog Devices withdrew their complaint without prejudice before we were required to file a response.

For a description of risks associated with this pending lawsuit, please see "We depend on a limited number of customers for the vast majority of our sales, and the loss of, or a significant reduction in orders from, any key customer could significantly reduce our sales" and "Significant litigation over intellectual property in our industry may cause us to become involved in costly and lengthy litigation which could seriously harm our business" in the risk factors included in Item 2 of Part I of this Form 10-Q.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On May 10, 2000, we issued 1,200 shares of our common stock to an employee pursuant to an exercise of stock options (with an exercise price of $0.12 per share) under our 2000 Stock Incentive Plan. This issuance was exempt from registration under Section 5 of the Securities Act of 1933 in reliance upon Rule 701 thereunder. We filed a Registration Statement on Form S-8 with respect to options and shares issuable under our 2000 Stock Incentive Plan and Employee Stock Purchase Plan with the Securities and Exchange Commission on June 16, 2000.

Our registration statement (Registration No. 333-94853) under the Securities Act of 1933, as amended, relating to our initial public offering of our common stock became effective on March 23, 2000. A total of 3,680,000 shares of common stock were registered. We sold a total of 3,200,000 shares of our common stock and selling stockholders sold a total of 480,000 to an underwriting syndicate. The managing underwriters were Morgan Stanley & Co. Incorporated, Lehman Brothers Inc., and Salomon Smith Barney Inc. The offering commenced and was completed on March 24, 2000, at a price to the public of $31.00 per share. The initial public offering resulted in net proceeds to us of $90.8 million, after deducting underwriting commissions of $6.9 million and offering expenses of $1.5 million. As of July 1, 2000, these proceeds were invested in government securities and other short-term, investment-grade, interest bearing instruments.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

ITEM 5 OTHER INFORMATION

Not applicable

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibit is filed as part of this report:

10.19	Lease Agreement dated June 29, 2000 by and between Silicon Laboratories Inc. and Stratus 7000 West Joint Venture.
27.01	Financial Data Schedule (EDGAR version only)

(b) There were no reports on Form 8-K filed during the quarter ended July 1, 2000.

SIGNATURES

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

SILICON LABORATORIES INC.

By: /s/ John W. McGovern
John W. McGovern
VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER

July 17, 2000
Date

/s/ Navdeep S. Sooch
Navdeep S. Sooch
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

July 17, 2000
Date

/s/ John W. McGovern
John W. McGovern
VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
(PRINCIPAL ACCOUNTING OFFICER)

LEASE AGREEMENT

BETWEEN

STRATUS 7000 WEST JOINT VENTURE

AS LANDLORD,

AND

SILICON LABORATORIES INC.

AS TENANT,

COVERING APPROXIMATELY 34,548 RENTABLE SQUARE FEET
OF THE BUILDING KNOWN (OR TO BE KNOWN) AS

7000 WEST AT LANTANA, BUILDING TWO

LOCATED AT

7000 WEST WILLIAM CANNON DRIVE

AUSTIN, TEXAS 78735

BASIC LEASE INFORMATION

Lease Date:	June 29, 2000
Tenant:	Silicon Laboratories Inc.
Tenant's Address:	4635 Boston Lane Austin, Texas 78735
Contact:	John McGovern
Telephone:	(512) 416-8500
Landlord:	Stratus 7000 West Joint Venture
Landlord's Address:	c/o Stratus Management, L.L.C. 98 San Jacinto, Suite 220 Austin, Texas 78701
Contact:	Rick Lindley
Telephone:	478-5788
Premises:	Suite No. 2-200 containing approximately 34,548 rentable square feet on the second floor of the Building. The Premises are outlined on the plan attached to the Lease as EXHIBIT A-1. The Premises are measured using 1996 BOMA useable standards multiplied by the Building Factor of 1.0886.
Building:	7000 West at Lantana Building Two, which contains 66,628 of rentable square feet and is located or to be located on the land described on EXHIBIT A attached hereto (the "LAND").
Project:	7000 West at Lantana, which includes the Building, one (1) other office building known as Building One and related parking facilities and commons areas, as shown on EXHIBIT A-2 attached hereto.
Development:	All improvements within the Project plus all other improvements owned by Landlord and Landlord's affiliates in an area in the Lantana Corporate Center bounded by William Cannon Drive West on the west, Southwest Parkway on the north, and Vega running on the southern boundary.
Term:	Seventy-six (76) months, commencing the later of:(i) October 1, 2000, or (ii) the date upon which the Work improvements set forth in EXHIBIT D have been Substantially Completed (the "Commencement Date") and ending at 5:00 p.m., January 31, 2007, subject to adjustment based on the date of Substantial Completion and earlier termination as provided in the Lease.
Substantial Completion:	The term "Substantially Completed" or "Substantial Completion" shall mean that, in the opinion of the architect and space planner that prepared the Working Drawings, such Work has been substantially completed in accordance with the Working Drawings, the Premises are in good and satisfactory condition, with the exception of completion of minor details of construction, mechanical adjustments or decorations which do not materially interfere with Tenant's use of the Premises that remain to be performed (items normally referred to as "punch list" items), and the City of Austin has issued a certificate of occupancy for the Premises; provided, however, that if and to the extent Substantial Completion would have occurred earlier but for any Tenant Delays (as defined in Exhibit D), Substantial Completion shall be deemed to have occurred on the date it would have occurred but for those Tenant Delays.
Basic Rental:	(i) for months 1-24, $47,555.32 per month, which is based on an annual Basic Rental of $16.518 per rentable square foot; (ii) for months 25-48, $51,873.82 per month, which is

based on an annual Basic Rental of $18.018 per rentable square foot and (iii) for months 49- 76, $56,192.32 per month, which is based on an annual Basic Rental of $19.518 per rentable square foot.

Security Deposit:	$ 69,147.82 in cash.
Rent:	Basic Rental, Tenant's Proportionate Share of Basic Costs and all other sums that Tenant may owe to Landlord under the Lease.
Permitted Use:	General office use including ancillary uses related to general office use, including the operation of vending machines within the Premises for use by Tenant's employees and visitors.
Tenant's Proportionate Share:	51.85%, which is the percentage obtained by dividing (a) the 34,548 rentable square feet in the Premises by (b) the 66,628 rentable square feet in the Building.
Tenant's Estimated Proportionate Share of Basic Costs:	Costs of $7.50 per rentable square foot which is equal to $21,592.50 per month.
Initial Liability Insurance Amount:	$3,000,000.00
Maximum Construction Allowance:	$22.00 per rentable square foot
Building's Proportionate Share:	The percentage obtained by dividing (a) the 66,628 rentable square feet contained within Building by (b) the number of completed rentable square feet contained within the Project; provided that Landlord and Tenant acknowledge that the Building's Proportionate Share be adjusted as additional completed rentable square feet are added to or subtracted from the Project. Currently, the Building's Proportionate Share equals 50%.

The foregoing Basic Lease Information is incorporated into and made a part of the Lease identified above. If any conflict exists between any Basic Lease Information and the Lease, then the Lease shall control.

LANDLORD: STRATUS 7000 WEST JOINT VENTURE
a Texas joint venture

By: STRATUS 7000 WEST, LTD., a Texas limited partnership, Joint Venturer

By: STRS, L.L.C., a Delaware limited liability company, its General Partner

By: STRATUS PROPERTIES INC., a Delaware corporation, its sole member

By: /s/ William H. Armstrong, III

William H. Armstrong, III
President and CEO

TENANT: SILICON LABORATORIES INC.

By: /s/ Navdeep S. Sooch

Navdeep S. Sooch,
Chairman and CEO

TABLE OF CONTENTS

LIST OF DEFINED TERMS

LEASE

THIS LEASE AGREEMENT (this "LEASE") is entered into as of June 29, 2000, between Stratus 7000 West Joint Venture, a Texas joint venture ("LANDLORD"), and Silicon Laboratories, Inc.(TENANT").

DEFINITIONS AND BASIC PROVISIONS

1. The definitions and basic provision set forth in the Basic Lease Information (the "BASIC LEASE INFORMATION") executed by Landlord and Tenant contemporaneously herewith are incorporated herein by reference for all purposes.

LEASE GRANT

2. Subject to the terms of this Lease, Landlord leases to Tenant, and Tenant leases from Landlord, the Premises.

TERM

3. If the Commencement Date is not the first day of a calendar month, then the Term shall be extended by the time between the Commencement Date and the first day of the next month. If this Lease is executed before the Premises become available and ready for occupancy by Tenant, then (a) Tenant's obligation to pay Rent hereunder shall be waived until Landlord tenders possession of the Premises to Tenant, (b) the Term shall be extended by the time between the scheduled Commencement Date and the date on which Landlord tenders possession of the Premises to Tenant (which date will then be defined as the Commencement Date), (c) Landlord shall not be in default hereunder or be liable for damages therefor, and (d) Tenant shall accept possession of the Premises when Landlord tenders possession thereof to Tenant. By occupying the Premises, Tenant shall be deemed to have accepted the Premises in their condition as of the date of such occupancy, subject to the performance of punch-list items that remain to be performed by Landlord, if any. Tenant shall execute and deliver to Landlord, within ten days after Landlord has requested same, a letter confirming (1) the Commencement Date, (2) that Tenant has accepted the Premises, and (3) that Landlord has performed all of its obligations with respect to the Premises (except for punch-list items specified in such letter).

RENT

4. (a) PAYMENT. Tenant shall timely pay to Landlord the Basic Rental and all additional sums to be paid by Tenant to Landlord under this Lease, including the amounts set forth in EXHIBIT C, without deduction or set off except as otherwise expressly provided in Section 7(d), at Landlord's Address (or such other address as Landlord may from time to time designate in writing to Tenant). Basic Rental, adjusted as herein provided, shall be payable monthly in advance. The first monthly installment of Basic Rental shall be payable upon the Commencement Date of this Lease; thereafter, monthly installments of Basic Rental shall be due on the first day of the second full calendar month of the Term and continuing on the first day of each succeeding calendar month during the Term. Basic Rental for any fractional month at the beginning of the Term shall be prorated based on 1/365 of the current annual Basic Rental for each day of the partial month this Lease is in effect, and shall be due on the Commencement Date.

(b) CONSUMER PRICE INDEX INCREASES TO BASIC RENTAL. (Intentionally Omitted.)

(c) BASIC COSTS. Tenant shall pay to Landlord, on the first day of each calendar month, an amount equal to the product of (1) 1/12 of the estimated Basic Costs (as described on EXHIBIT C), multiplied by (2) Tenant's Proportionate Share. From time to time during any calendar year, Landlord may in good faith estimate and re-estimate the Proportionate Share of Basic Costs to be due by Tenant for that calendar year and deliver a copy of the estimate or re-estimate to Tenant. Thereafter, the monthly installments of estimated Basic Costs payable by Tenant shall be appropriately adjusted in accordance with the estimations so that, by the end of the calendar year in question, Tenant shall have paid all of its Proportionate Share of Basic Costs as estimated in good faith by Landlord.

(d) ANNUAL COST STATEMENT. By April 1 of each calendar year, or as soon thereafter as practicable, Landlord shall furnish to Tenant a statement of Landlord's actual Basic Costs (the "ANNUAL COST STATEMENT") for the previous year adjusted as provided in Section 4.(e). If the Annual Cost Statement reveals that Tenant paid more for Basic Costs than Tenant's Proportionate Share of Basic Costs in the year for which such statement was prepared, then Landlord shall credit

for such excess during the following year; likewise, if Tenant paid less than Tenant's Proportionate Share of Basic Costs, then Tenant shall pay Landlord such deficiency within 30 days after delivery of the Annual Cost Statement in question; provided, however, that in no event shall Tenant's Proportionate Share of Basic Costs in any year (commencing with calendar year 2001) exceed the immediately preceding year's Proportionate Share of Basic Costs by more than six percent (6%) of such preceding year's Proportionate Share of Basic Costs, excluding Tenant's Proportionate Share of Basic Costs for insurance, taxes and utilities (none of which shall be subject to such yearly six percent (6%) maximum increase). Notwithstanding the foregoing, it is hereby acknowledged that the 6% cap on controllable Basic Costs shall be calculated on a cumulative basis (i.e., if the increase in costs in any given year is less than 6% then the difference between the actual percentage increase and 6% may be carried over to be used in subsequent years in which the increase exceeds 6%).

(e) ADJUSTMENTS TO BASIC COSTS. With respect to any calendar year or partial calendar year in which the Building is not occupied to the extent of 95% of the rentable area thereof, the Basic Costs for such period shall, for the purposes hereof, be increased to the amount which would have been incurred had the Building been occupied to the extent of 95% of the rentable area thereof.

(f) AUDIT RIGHTS. Tenant and its agents shall have the right, upon ten (10) days' written notice, to audit, inspect and copy the books and records relating to the Basic Costs during normal business hours. If any audit shall accurately reflect a discrepancy between the actual Basic Costs and the amount shown on any Annual Cost Statement previously furnished Tenant, the parties shall reconcile the discrepancy. Tenant shall not be permitted to audit periods earlier than the immediately preceding two (2) years.

DELINQUENT PAYMENT; HANDLING CHARGES

5. All payments required of Tenant hereunder shall bear interest from the date due until paid at the maximum lawful rate. Alternatively, Landlord may charge Tenant a fee equal to 5% of the delinquent payment to reimburse Landlord for its cost and inconvenience incurred as a consequence of Tenant's delinquency. In no event, however, shall the charges permitted under this Section 5 or elsewhere in this Lease, to the extent the same are considered to be interest under applicable law, exceed the maximum lawful rate of interest. The interest and the 5% fee referenced in this Section 5 shall begin to accrue and only be payable by Tenant on the tenth (10th) day following written notice from Landlord notifying Tenant of Tenant's delinquency; provided, however, that in the event Landlord gives to Tenant notice of Tenant's delinquency two (2) times in any calendar year, the interest and the 5% fee referenced in this Section 5 shall begin to accrue and be payable by Tenant immediately (without notice) upon Tenant's third (3rd) delinquency (and any subsequent delinquencies) in such calendar year.

SECURITY DEPOSIT

6. Contemporaneously with the execution of this Lease, Tenant shall pay to Landlord, in immediately available funds, the Security Deposit, which shall be held by Landlord without liability for interest and as security for the performance by Tenant of its obligations under this Lease. The Security Deposit is not an advance payment of Rent or a measure or limit of Landlord's damages upon an Event of Default (defined below). Landlord may, from time to time and without prejudice to any other remedy, use all or a part of the Security Deposit upon and after an Event of Default to perform any obligation which Tenant was obligated, but failed, to perform hereunder. Following any such application of the Security Deposit, Tenant shall pay to Landlord on demand the amount so applied in order to restore the Security Deposit to its original amount. Within a reasonable time after the Term ends, provided Tenant has performed all of its obligations hereunder, Landlord shall return to Tenant the balance of the Security Deposit not applied to satisfy Tenant's obligations. If Landlord transfers its interest in the Premises, then Landlord shall assign the Security Deposit to the transferee and Landlord thereafter shall have no further liability for the return of the Security Deposit.

LANDLORD'S OBLIGATIONS

7. (a) SERVICES. Provided no Event of Default exists, Landlord shall furnish to Tenant (1) water (hot and cold) at those points of supply provided for general use of tenants of

the Building; (2) heated and refrigerated air conditioning as appropriate, during normal business hours, and at such temperatures and in such amounts as are reasonably considered by Landlord to be standard; (3) janitorial service, in compliance with Tenant's confidential and proprietary procedures, to the Premises on weekdays other than holidays for Building- standard installations (Landlord reserves the right to bill Tenant separately for extra janitorial service required for non-standard installations) and such window washing as may from time to time in Landlord's judgment be reasonably required; provided, however, that Landlord, at its option, may decide to cease providing janitorial service to the Premises, in which event Tenant will be responsible for providing its own

janitorial service and Tenant's Proportionate share of Basic Costs shall be equitably reduced to reflect the same; (4) an elevator for ingress and egress to the floor on which the Premises are located, in common with other tenants; (5) replacement of Building-standard light bulbs and fluorescent tubes; and (6) electrical current during normal business hours at a power capacity of 4 watts per rentable space foot for lighting and outlets ("Normal Usage"). Landlord shall maintain the common areas of the Building in reasonably good order and condition, except for damage occasioned by Tenant, or its employees, agents or invitees. If Tenant desires any of the services specified in this Section 7.(a) at any time other than times herein designated, such services shall be supplied to Tenant upon the written request of Tenant delivered to Landlord before 3:00 p.m. on the business day preceding such extra usage (except for heated and refrigerated air conditioning, which shall be immediately available to Tenant through use of an automated "on-demand" system to be installed by Landlord or, in the event such automated "on-demand" system is not available due to system failure, immediately provided by Landlord upon verbal request from Tenant, so long as such request is made during normal business hours), and Tenant shall pay to Landlord the cost of such services, which shall be provided at the same rate charged other tenants in the Building, within ten days after Landlord has delivered to Tenant an invoice therefor. As used herein, the term "normal business hours" shall mean from 7:00 a.m. to 7:00 p.m. Monday through Friday and from 8:00 a.m. to 1:00 p.m. on Saturdays, except for legal holidays. Tenant, if it so desires at Tenant's cost, shall be responsible and Landlord grants all consents for obtaining fiber optics telecommunications service to the Premises from a point adjacent to the outside of the building or the telecommunication building (without additional rent for using risers or feeder space or otherwise); provided that in doing so Tenant shall not adversely affect the Building or Building systems or interfere with other tenants or building operations; and provided further that, Landlord has or will designate the Building as a multi-tenant building with Southwestern Bell, thereby making the Premises the point of demarcation for Tenant's fiber optics service.

(b) EXCESS UTILITY USE. Landlord shall use reasonable efforts to furnish electrical current for special lighting, computers and other equipment whose electrical energy consumption exceeds Normal Usage through the then-existing feeders and risers serving the Building and the Premises (not to exceed, however, 6.5 watts per rentable square foot), and Tenant shall pay to Landlord the cost of such service within ten days after Landlord has delivered to Tenant an invoice therefor. Landlord may determine the amount of such additional consumption and potential consumption by either or both: (1) a survey of standard or average tenant usage of electricity in the Building performed by a reputable consultant selected by Landlord and paid for by Tenant; or (2) a separate meter in the Premises installed, maintained, and read by Landlord, at Tenant's expense. Tenant shall not install any electrical equipment requiring special wiring or requiring electrical current in excess of Normal Usage unless approved in advance by Landlord. The use of electricity in the Premises shall not exceed the capacity of existing feeders and risers to or wiring in the Premises. Any risers or wiring required to meet Tenant's excess electrical requirements shall, upon Tenant's written request, be installed by Landlord, at Tenant's cost, if, in Landlord's sole and absolute judgment, the same are necessary and shall not cause permanent damage or injury to the Building or the Premises, cause or create a dangerous or hazardous condition, entail excessive or unreasonable alterations, repairs, or expenses, or interfere with or disturb other tenants of the Building. If Tenant uses machines or equipment (other than general office machines, personal computers and electronic data processing equipment) in the Premises which affect the temperature otherwise maintained by the air conditioning system or otherwise overload any utility, Landlord may install supplemental air conditioning units or other supplemental equipment in the Premises, and the cost thereof, including the cost of installation, operation, use, and maintenance, shall be paid by Tenant to Landlord within ten days after Landlord has delivered to Tenant an invoice therefor.

(c) DISCONTINUANCE. Landlord's obligation to furnish services under Section 7.(a) shall be subject to the rules and regulations of the supplier of such services and governmental rules and regulations. Landlord may, upon not less than 30-days' prior written notice to Tenant, discontinue any such service to the Premises, provided Landlord first arranges for

a fully functioning, equivalent capacity direct connection thereof through the supplier of such service. Tenant shall, however, be responsible for contracting with the supplier of such service and for paying all deposits for, and costs relating to, such service.

(d) RESTORATION OF SERVICES; ABATEMENT. Landlord shall use reasonable efforts to restore any service that becomes unavailable; however, such unavailability shall (i) not render Landlord liable for any damages caused thereby, (ii) be a constructive eviction of Tenant, (iii) constitute a breach of any implied warranty, or, except as provided in the next sentence, or (iv) entitle Tenant to any abatement of Tenant's obligations hereunder. However, if Tenant is prevented from making reasonable use of the Premises for more than 15 consecutive days (or 5 consecutive days if the reason for such unavailability is within the reasonable control of Landlord) because of the unavailability of any such service, Tenant shall, as its exclusive remedy therefor, be entitled to a reasonable abatement of Rent for each consecutive day (after such 15-day or 5-day period, as applicable) that Tenant is so prevented from making reasonable use of the Premises. Notwithstanding the foregoing, Tenant has the right to terminate the Lease effective sixty (60) days after Tenant notifies Landlord in writing of a material utility service (not including fiber optics) discontinuance, unless such utility service is restored within such 60-day period.

8. (a) IMPROVEMENTS; ALTERATIONS. Improvements to the Premises shall be installed at the expense of Tenant only in accordance with plans and specifications which have been previously submitted to and approved in writing by Landlord. After the initial Tenant improvements are made, no alterations or physical

additions in or to the Premises may be made without Landlord's prior written consent. Tenant shall not paint or install lighting or decorations, signs, window or door lettering, or advertising media of any type on or about the Premises without the prior written consent of Landlord. All alterations, additions, or improvements (whether temporary or permanent in character, and including without limitation all air-conditioning equipment and all other equipment that is in any manner connected to the Building's plumbing system) made in or upon the Premises, either by Landlord or Tenant, shall be Landlord's property at the end of the Term and shall remain on the Premises without compensation to Tenant. Approval by Landlord of any of Tenant's drawings and plans and specifications prepared in connection with any improvements in the Premises shall not constitute a representation or warranty of Landlord as to the adequacy or sufficiency of such drawings, plans and specifications, or the improvements to which they relate, for any use, purpose, or condition, but such approval shall merely be the consent of Landlord as required hereunder. Notwithstanding anything in this Lease to the contrary, Tenant shall be responsible for the cost of all work within the Premises required to comply with the retrofit requirements of the Americans with Disabilities Act of 1990, and all rules, regulations, and guidelines promulgated thereunder, as the same may be amended from time to time (the "ADA"), necessitated by any installations, additions, or alterations made in or to the Premises at the request of or by Tenant or by Tenant's use of the Premises (other than retrofit work whose cost has been particularly identified as being payable by Landlord in an instrument signed by Landlord and Tenant), and Landlord shall be responsible for the cost of all work required to comply with the ADA in connection with other areas of the Building. Notwithstanding the foregoing, all moveable partitions, cubical furniture and de-mountable wall systems are to be considered personal property of the Tenant (similar to furniture) and may be erected, moved, re-configured and removed, including minor electrical connections, without consent from Landlord provided that the Building is returned to its original or otherwise satisfactory condition after such removal.

(b). REPAIRS; MAINTENANCE. Tenant shall maintain the Premises in a clean, safe, operable, attractive condition, and shall not permit or allow to remain any waste or damage to any portion of the Premises. Tenant shall repair or replace, subject to Landlord's direction and supervision any damage to the Building caused by Tenant or Tenant's agents, contractors, or invitees. If Tenant fails to make such repairs or replacements within 15 days after the occurrence of such damage, then Landlord may make the same at Tenant's cost. In lieu of having Tenant repair any such damage outside of the Premises, Landlord may repair such damage at Tenant's cost. The cost of any repair or replacement work performed by Landlord under this Section 8 shall be paid by Tenant to Landlord within ten days after Landlord has delivered to Tenant an invoice therefor.

(c). PERFORMANCE OF WORK. All work described in this Section 8 shall be performed only by Landlord or by contractors and subcontractors approved in writing by Landlord. Tenant shall cause all contractors and subcontractors to procure and maintain insurance coverage against risks, in such amounts, and with such companies as Landlord may reasonably require, and to procure payment and performance bonds reasonably satisfactory to Landlord covering the cost of the work. All such work shall be performed in accordance with all legal requirements and in a good and workmanlike manner so as not to damage the Premises, the primary structure or structural qualities of the Building, or plumbing, electrical lines, or other utility transmission facility. All such work which may affect the HVAC, electrical system, or plumbing must be approved by the Building's engineer of record.

(d). MECHANIC'S LIENS. Tenant shall not permit any mechanic's liens to be filed against the Premises or the Building for any work performed, materials furnished or obligation incurred by or at the request of Tenant. If such a lien is filed, then Tenant shall, within ten days after Landlord has delivered notice of the filing to Tenant, either pay the amount of the lien or diligently contest such lien and deliver to Landlord a bond or other security reasonably satisfactory to Landlord. If Tenant fails to timely take either such action, then Landlord may pay the lien claim without inquiry as to the validity thereof, and any amounts so paid, including expenses and interest, shall be paid by Tenant to Landlord within ten days after Landlord has delivered to

Tenant an invoice therefor.

USE

9. Tenant shall occupy and use the Premises only for the Permitted Use and shall comply with all laws, orders, rules, and regulations relating to the use, condition, and occupancy of the Premises. The Premises shall not be used for any use which is disreputable or creates extraordinary fire hazards or results in an increased rate of insurance on the Building or its contents or the storage of any hazardous materials or substances. If, because of Tenant's acts, the rate of insurance on the Building or its contents increases, Tenant shall pay to Landlord the amount of such increase on demand, and acceptance of such payment shall not constitute a waiver of any of Landlord's other rights. Tenant shall conduct its business and control its agents, employees, and invitees in such a manner as not to create any nuisance or interfere with other tenants or Landlord in its management of the Building.

ASSIGNMENT AND SUBLETTING

10. (a) TRANSFERS; CONSENT. Tenant shall not, without the prior written consent of Landlord (which shall not be unreasonably withheld, conditioned or delayed), (1) assign, transfer, or encumber this Lease or any estate or interest herein, whether directly or by operation of law, (2) permit any other entity to become Tenant hereunder by merger, consolidation, or other reorganization, (3) if Tenant is an entity other than a corporation whose stock is publicly traded, permit the transfer of an ownership interest in Tenant so as to result in a change in the current control of Tenant, (4) sublet any portion of the Premises, (5) grant any license,

concession, or other right of occupancy of any portion of the Premises, or (6) permit the use of the Premises by any parties other than Tenant (any of the events listed in Sections 10.(a)(1) through 10.(a)(6) being a "TRANSFER"). If Tenant requests Landlord's consent to a Transfer, then Tenant shall provide Landlord with a written description of all terms and conditions of the proposed Transfer, copies of the proposed documentation, and the following information about the proposed transferee: name and address; reasonably satisfactory information about its business and business history; its proposed use of the Premises; banking, financial, and other credit information; and general references sufficient to enable Landlord to determine the proposed transferee's creditworthiness and character. Tenant shall reimburse Landlord for its reasonable attorneys' fees and other expenses incurred in connection with considering any request for its consent to a Transfer. If Landlord consents to a proposed Transfer, then the proposed transferee shall deliver to Landlord a written agreement whereby it expressly assumes the Tenant's obligations hereunder; however, any transferee of less than all of the space in the Premises shall be liable only for obligations under this Lease that are properly allocable to the space subject to the Transfer, and only to the extent of the rent it has agreed to pay Tenant therefor. Landlord's consent to a Transfer shall not release Tenant from performing its obligations under this Lease, but rather Tenant and its transferee shall be jointly and severally liable therefor. Landlord's consent to any Transfer shall not waive Landlord's rights as to any subsequent Transfers. If an Event of Default occurs while the Premises or any part thereof are subject to a Transfer, then Landlord, in addition to its other remedies, may collect directly from such transferee all rents becoming due to Tenant and apply such rents against Rent. Tenant authorizes its transferees to make payments of rent directly to Landlord upon receipt of notice from Landlord to do so provided such notice states that an Event of Default has occurred and is continuing. Notwithstanding the foregoing, Tenant may assign the Lease or sublease all or any portion of the Premises without Landlord's consent to any of the following (a "Permitted Transferee"), provided that the Permitted Transferee's financial condition, creditworthiness and business reputation following the transfer are reasonably satisfactory to Landlord after considering Tenant's continuing obligations of payment and performance: (i) any successor corporation or other entity resulting from a merger or consolidation of Tenant; (ii) any purchaser of all or substantially all of Tenant's assets; or (iii) any entity which controls, is controlled by, or is under common control with Tenant; provided further, however, that a Permitted Transferee shall also include a sublessee that is an entity in which Tenant owns or controls greater than fifty percent (50%) of the ownership interests [or the right to vote such ownership interest] and is in the same or similar business as Tenant without regard to such sublessee's financial condition or creditworthiness. Tenant shall give Landlord thirty (30) days prior written notice of such assignment or sublease. Any Permitted Transferee (other than a sublessee) shall assume in writing all of Tenant's obligations under this Lease. Tenant shall nevertheless at all times remain fully responsible and liable for the payment of rent and the performance and observance of all of Tenant's other obligations under this Lease. Nothing in this paragraph is intended to nor shall permit Tenant to transfer its interest under this Lease as part of a fraud or subterfuge to intentionally avoid its obligations under this Lease (for example, transferring its interest to a shell corporation that subsequently files a bankruptcy), and any such transfer shall constitute an Event of Default hereunder.

(b) CANCELLATION. Landlord may, within ten (10) days after submission of Tenant's written request for Landlord's consent to a Transfer (except to a Permitted Transfer), cancel this Lease (or, as to a subletting or assignment, cancel as to the portion of the Premises proposed to be sublet or assigned) as of the date the proposed Transfer was to be effective. Notwithstanding the foregoing, Landlord shall not have a cancellation right with respect to a sublease that covers less than the Requisite Square Feet and is for less than three (3) years. If Landlord cancels this Lease as to any portion of the Premises, then this Lease shall cease for such portion of the Premises and Tenant shall pay to Landlord all Rent accrued through the cancellation date relating to the portion of the Premises covered by the proposed Transfer. Thereafter, Landlord may lease such portion of the Premises to the prospective transferee (or to any other person) without

liability to Tenant. As used herein, the term "Requisite Square Feet" shall mean the remainder of (x) 35,000 square feet MINUS (y) the square footage of all other space in the Project subleased by Tenant (or its assigns) to another occupant at the time of the request.

(c) ADDITIONAL COMPENSATION. Tenant shall pay to Landlord, immediately upon receipt thereof, one-half (1/2) of all compensation received by Tenant for a Transfer that exceeds the sum of the Basic Rental and Tenant's share of Basic Costs allocable to the portion of the Premises covered thereby; provided, however, that Tenant shall be allowed to recoup its reasonable out of pocket expenses incurred in such Transfer (attorney's fees, brokerage commissions and costs of retrofitting the Premises) from such excess compensation before paying one-half (1/2) of such excess compensation to Landlord. Notwithstanding the foregoing, Tenant shall not be required to pay to Landlord additional compensation received by Tenant for a Transfer if (i) such Transfer is to a Permitted Transferee or (ii) such additional compensation is in the form of non-monetary compensation such as assignment of intellectual properties or warrants for shares of stock.

INSURANCE;
WAIVERS;
SUBROGATION;
INDEMNITY

11. (a) TENANT'S INSURANCE. Tenant shall at its expense procure and maintain throughout the Term the following insurance policies: (1) comprehensive general liability insurance in amounts of not less than a combined single limit of $3,000,000 (the "INITIAL LIABILITY INSURANCE AMOUNT") or such other amounts as Landlord may from time to time reasonably require, insuring Tenant, Landlord, Landlord's agents and their respective affiliates against all liability for injury to or death of a person or persons or damage to property

arising from the use and occupancy of the Premises by Tenant, (2) contractual liability insurance coverage sufficient to cover Tenant's indemnity obligations hereunder, (3) insurance covering the full value of Tenant's property and improvements, and other property (including property of others), in the Premises, (4) workman's compensation insurance, containing a waiver of subrogation endorsement reasonably acceptable to Landlord, and (5) business interruption insurance. Tenant's insurance shall provide primary coverage to Landlord when any policy issued to Landlord provides duplicate or similar coverage, and in such circumstance Landlord's policy will be excess over Tenant's policy. Tenant shall furnish certificates of such insurance and such other evidence satisfactory to Landlord of the maintenance of all insurance coverages required hereunder, and Tenant shall obtain a written obligation on the part of each insurance company to notify Landlord at least 30 days before cancellation or a material change of any such insurance. All such insurance policies shall be in form, and issued by companies, reasonably satisfactory to Landlord. The term "AFFILIATE" shall mean any person or entity which, directly or indirectly, controls, is controlled by, or is under common control with the party in question.

(b) LANDLORD'S INSURANCE. Landlord shall, during the term, maintain in full force the following insurance: (i) commercial general liability insurance insuring against any liability due to injury or death to any person or loss of or damage to property arising out of the operations of Landlord at the Building and/or arising out of the common areas, with coverage limits at least three million dollars ($3,000,000.00) per occurrence (which coverage may be through blanket or umbrella policies), and (ii) All-Risk Property insurance, issued by one or more insurance carriers covering the Building to the extent of its full replacement value (exclusive of improvements above building standard and foundation and excavation costs and other uninsurable parts).

(c) WAIVER OF NEGLIGENCE CLAIMS; NO SUBROGATION. Landlord shall not be liable to Tenant or those claiming by, through, or under Tenant for any injury to or death of any person or persons or the damage to or theft, destruction, loss, or loss of use of any property or inconvenience (a "LOSS") caused by casualty, theft, fire, third parties, or any other matter (including Losses arising through repair or alteration of any part of the Building, or failure to make repairs, or from any other cause), REGARDLESS OF WHETHER THE NEGLIGENCE OF ANY PARTY CAUSED SUCH LOSS IN WHOLE OR IN PART EXCEPT FOR GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF LANDLORD OR ITS AGENTS. Landlord and Tenant each waives any claim it might have against the other for any damage to or theft, destruction, loss, or loss of use of any property, to the extent the same is insured against under any insurance policy that covers the Building, the Premises, Landlord's or Tenant's fixtures, personal property, leasehold improvements, or business, or, in the case of Tenant's waiver, is required to be insured against under the terms hereof, REGARDLESS OF WHETHER THE NEGLIGENCE OR FAULT OF THE OTHER PARTY CAUSED SUCH LOSS; HOWEVER, LANDLORD'S WAIVER SHALL NOT INCLUDE ANY DEDUCTIBLE AMOUNTS ON INSURANCE POLICIES CARRIED BY LANDLORD OR APPLY TO ANY COINSURANCE PENALTY WHICH LANDLORD MIGHT SUSTAIN. Each party shall cause its insurance carrier to endorse all applicable policies waiving the carrier's rights of recovery under subrogation or otherwise against the other party.

(d) INDEMNITY. Subject to Section 11.(b), Tenant shall defend, indemnify, and hold harmless Landlord and its agents from and against all claims, demands, liabilities, causes of action, suits, judgments, and expenses (including reasonable attorneys' fees) for any Loss arising from any occurrence on the Premises or from Tenant's failure to perform its obligations under this Lease (other than a Loss arising from the sole or gross negligence or willful acts of Landlord or its agents), even though caused or alleged to be caused by the joint, comparative, or concurrent negligence or fault of Landlord or its agents. THIS INDEMNITY PROVISION IS INTENDED TO INDEMNIFY LANDLORD AND ITS AGENTS AGAINST THE CONSEQUENCES OF THEIR OWN NEGLIGENCE OR FAULT AS PROVIDED ABOVE WHEN LANDLORD OR ITS AGENTS ARE JOINTLY, COMPARATIVELY, OR CONCURRENTLY NEGLIGENT WITH TENANT. This indemnity provision shall survive termination or expiration of this Lease.

SUBORDINATION ATTORNMENT; NOTICE TO LANDLORD'S MORTGAGEE

12. (a) SUBORDINATION. This Lease is subordinate to

any deed of trust, mortgage, or other security instrument (a "MORTGAGE"), or any ground lease, master lease, or primary lease (a "PRIMARY LEASE"), that now or hereafter covers all or any part of the Premises (the mortgagee under any Mortgage or the lessor under any Primary Lease is referred to herein as "LANDLORD'S MORTGAGEE"). The provisions of this Section 12(a) shall be self-operative, and no further instrument shall be required to effect such subordination; however, Landlord shall deliver to Tenant, and Tenant shall execute from time to time within ten days after delivery to Tenant, an instrument from each Landlord's Mortgagee evidencing the subordination of this Lease to any such Mortgage or Primary Lease (which instrument shall include a non-disturbance provision in favor of Tenant and shall be on Landlord's Mortgagee's standard form). Notwithstanding the foregoing, Landlord, Tenant and Landlord's Mortgagee shall execute and deliver a Subordination, Non-disturbance and Attornment Agreement in the form attached as Exhibit "H" hereto within ten (10) days after the date hereof.

(b) ATTORNMENT. Tenant shall attorn to any party succeeding to Landlord's interest in the Premises, whether by purchase, foreclosure, deed in lieu of foreclosure, power of sale, termination of lease, or otherwise, upon such party's request, and shall execute such agreements confirming such attornment as such party may reasonably request.

(c) NOTICE TO LANDLORD'S MORTGAGEE. Tenant shall not seek to enforce any remedy it may have for any default on the part of the Landlord without first giving written notice by certified mail, return receipt requested, specifying the default in reasonable detail, to any Landlord's Mortgagee whose address has been given to Tenant, and affording such Landlord's Mortgagee the same opportunity as given to Landlord to perform Landlord's obligations hereunder, except as otherwise may be provided in any applicable subordination, non-disturbance and attornment agreement executed by Landlord, Tenant and Landlord's Mortgagee.

RULES AND REGULATIONS

13. Tenant shall comply with the rules and regulations of the Building which are attached hereto as EXHIBIT B. Landlord may, from time to time, change such rules and regulations for the safety, care, or cleanliness of the Building and related facilities, provided that such changes are reasonable, applicable to all tenants of the Building evenly enforced and will not unreasonably interfere with Tenant's use of the Premises. Tenant shall be responsible for the compliance with such rules and regulations by its employees, agents, and invitees.

CONDEMNATION

14. (a) TAKING - LANDLORD'S AND TENANT'S RIGHTS. If any part of the Building is taken by right of eminent domain or conveyed in lieu thereof (a "TAKING"), and such Taking prevents Tenant from conducting its business in the Premises in a manner reasonably comparable to that conducted immediately before such Taking, then Landlord may, at its expense, relocate Tenant to office space reasonably comparable to the Premises within five miles of Premises, provided that Landlord notifies Tenant of its intention to do so prior to the effective date of the Taking. Such relocation may be for a portion of the remaining Term or the entire Term. Landlord shall complete any such relocation within 180 days after Landlord has notified Tenant of its intention to relocate Tenant. If Landlord does not elect to relocate Tenant following such Taking, then Tenant may terminate this Lease as of the date of such Taking by giving written notice to Landlord within 60 days after the Taking, and Rent shall be apportioned as of the date of such Taking. If Landlord does not relocate Tenant and Tenant does not terminate this Lease, then Rent shall be adjusted on a reasonable basis as to that portion of the Premises rendered untenantable by the Taking. Correspondingly, the Letter of Credit obligation will be adjusted on a reasonable basis in the event of partial Taking or eliminated entirely in the event of Lease termination.

(b) TAKING - LANDLORD'S RIGHTS. If any material portion, but less than all, of the Building becomes subject to a Taking, or if Landlord is required to pay any of the proceeds received for a Taking to Landlord's Mortgagee, then this Lease, at the option of Landlord, exercised by written notice to Tenant within 30 days after such Taking, shall terminate and Rent shall be apportioned as of the date of such Taking. If Landlord does not so terminate this Lease and does not elect to relocate Tenant, then, subject to Tenant's rights under 14(a), this Lease will continue, but if any portion of the Premises has been taken, Basic Rental shall adjust as provided in the last sentence of Section 14.(a).

(c) AWARD. If any Taking occurs, then Landlord shall receive the entire award or other compensation for the Land, the Building, and other improvements taken, and Tenant may separately pursue a claim against the condemner for the value of Tenant's personal property which Tenant is entitled to remove under this Lease, moving costs, loss of business, and other claims it may have.

FIRE OR OTHER CASUALTY

15. (a) REPAIR ESTIMATE. If the Premises or the Building are damaged by fire or other casualty (a "CASUALTY"), Landlord shall, within 60 days after such Casualty, deliver to Tenant a good faith estimate (the "DAMAGE NOTICE") of the time needed to repair the damage caused by such Casualty.

(b) LANDLORD'S AND TENANT'S RIGHTS. If a material portion of the Premises or the Building is damaged by Casualty such that Tenant is prevented from conducting its business in the Premises in a manner reasonably comparable to that conducted immediately before such Casualty and Landlord estimates in good faith that the damage caused thereby cannot be repaired within 270 days after the date of Casualty, then Tenant may terminate this Lease by delivering written notice to Landlord of its election to terminate within 30 days after the Damage Notice has been delivered to Tenant. If Tenant does

not terminate this Lease, then (subject to Landlord's rights under Section 15.(c)) Landlord shall repair the Building or the Premises, as the case may be, as provided below, and Rent for the portion of the Premises rendered untenantable by the damage shall be adjusted on a reasonable basis from the date of damage until the completion of the repair.

(c) LANDLORD'S RIGHTS. If a Casualty damages a material portion of the Building, and Landlord makes a good faith determination that restoring the Premises would be uneconomical, or if Landlord is required to pay any insurance proceeds arising out of the Casualty to Landlord's Mortgagee (such that Landlord would be required to pay $100,000.00 or more of its own funds to restore the Building), then Landlord may terminate this Lease by giving written notice of its election to terminate within 30 days after the Damage Notice has been delivered to Tenant, and Basic Rental hereunder shall be abated as of the date of the Casualty.

(d) REPAIR OBLIGATION. If neither party elects to terminate this Lease following a Casualty, then Landlord shall, within a reasonable time after such Casualty, commence to repair the Building and the Premises and shall proceed with reasonable diligence to restore the Building and Premises to substantially the same condition as they existed immediately before such Casualty; however, Landlord shall not be required to repair or replace any part of the furniture, equipment, fixtures, and other improvements which may have been placed by, or at the request of, Tenant or other occupants in the Building or the Premises, except for initial improvements pursuant to Exhibit D, and Landlord's obligation to repair or restore the Building or Premises shall be limited to the extent of the insurance proceeds actually received by Landlord for the Casualty in question. If Landlord fails to substantially complete the rebuilding and repair of the Premises within one (1) year after the date of the casualty, then this Lease shall terminate thirty (30) days after Landlord receives written notice, if any, from Tenant that Tenant has elected to terminate this Lease pursuant to this paragraph; provided that, if Landlord substantially completes such rebuilding and repairs prior to the expiration of thirty (30) days following Landlord's receipt of Tenant's termination notice, this Lease shall not so terminate and shall continue in full force and effect.

TAXES

16. Tenant shall be liable for all taxes levied or assessed against personal property, furniture, or fixtures placed by Tenant in the Premises. If any taxes for which Tenant is liable are levied or assessed against Landlord or Landlord's property and Landlord elects to pay the same, or if the assessed value of Landlord's property is increased by inclusion of such personal property, furniture or fixtures and Landlord elects to pay the taxes based on such increase, then Tenant shall pay to Landlord, upon demand, that part of such taxes for which Tenant is primarily liable hereunder.

EVENTS OF DEFAULT

17. Each of the following occurrences shall constitute an "EVENT OF DEFAULT":

(a) Tenant's failure to pay Rent, or any other sums due from Tenant to Landlord under the Lease when due and such failure continues for ten (10) days following written notice from Landlord notifying Tenant of Tenant's failure to pay when due; provided, however, that in the event Landlord gives to Tenant notice of Tenant's failure to pay when due two (2) times in any calendar year, Tenant's failure to pay when due the third (3rd) time in such calendar year shall constitute an Event of Default immediately without any notice thereof required from Landlord;

(b) Tenant's failure to perform, comply with, or observe any agreement or obligation of Tenant under this Lease (other than a payment obligation) on or before the thirtieth (30th) day following written notice of such failure or longer time if not curable within thirty (30) days provided Tenant is in diligent pursuit to cure such failure and in any event such cure is commenced within thirty (30) days, and completed within ninety (90) days, after written notice;

(c) the filing of a petition by or against Tenant in any bankruptcy or other insolvency proceeding; (2) seeking any relief under any state or federal debtor relief law; (3) for the appointment of a liquidator or receiver for all or substantially all of Tenant's property or for Tenant's interest in this Lease; or (4) for the reorganization or modification of Tenant's capital structure; provided that Tenant shall have sixty (60) days following the commencement of an involuntary proceeding to have such proceeding dismissed before such proceeding shall constitute an Event of Default; and

(d) the admission by Tenant that it cannot meet its obligations as they become due or the making by Tenant of an assignment for the benefit of its creditors.

REMEDIES

18. Upon any Event of Default, Landlord may, in addition to all other rights and remedies afforded Landlord hereunder or by law or equity, take any of the following actions:

(a) Terminate this Lease by giving Tenant written notice thereof, in which event, Tenant shall pay to Landlord the sum of (1) all Rent accrued hereunder through the date of termination, (2) all amounts due under Section 19.(a), and (3) an amount equal to (A) the total Rent that Tenant would have been required to pay for the remainder of the Term discounted

to present value at a per annum rate equal to the "Prime Rate" as published on the date this Lease is terminated by The Wall Street Journal, Southwest Edition, in its listing of "Money Rates", minus (B) the then present fair rental value of the Premises for such period, similarly discounted; or

(b) Terminate Tenant's right to possession of the Premises without terminating this Lease by giving written notice thereof to Tenant, in which event Tenant shall pay to Landlord (1) all Rent and other amounts accrued hereunder to the date of termination of possession, (2) all amounts due from time to time under Section 19.(a), and (3) all Rent and other sums required hereunder to be paid by Tenant during the remainder of the Term, diminished by any net sums thereafter received by Landlord through reletting the Premises during such period. Landlord shall use reasonable efforts to relet the Premises on such terms and conditions as Landlord in its sole discretion may determine (including a term different from the Term, rental concessions, and alterations to, and improvement of, the Premises); however, Landlord shall not be obligated to relet the Premises before leasing other portions of the Building. Landlord shall not be liable for, nor shall Tenant's

obligations hereunder be diminished because of, Landlord's failure to relet the Premises or to collect rent due for such reletting provided Landlord shall use reasonable efforts as set forth herein. Tenant shall not be entitled to the excess of any consideration obtained by reletting over the Rent due hereunder. Reentry by Landlord in the Premises shall not affect Tenant's obligations hereunder for the unexpired Term; rather, Landlord may, from time to time, bring action against Tenant to collect amounts due by Tenant, without the necessity of Landlord's waiting until the expiration of the Term. Unless Landlord delivers written notice to Tenant expressly stating that it has elected to terminate this Lease, all actions taken by Landlord to exclude or dispossess Tenant of the Premises shall be deemed to be taken under this Section 18.(b). If Landlord elects to proceed under this Section 18.(b), it may at any time elect to terminate this Lease under Section 18.(a).

Additionally, without notice, Landlord may alter locks or other security devices at the Premises to deprive Tenant of access thereto, and Landlord shall not be required to provide a new key or right of access to Tenant. Notwithstanding the foregoing, Tenant will be granted access to the premises for the sole purpose of removal of all materials, including documentation, electronic media, computers, computers containing electronic media, diagrams, pictures or any other property that is confidential or proprietary information of the Tenant or of third parties with such access granted to Tenant prior to Landlord re-entering the Premises; provided that a representative of Landlord may be present to insure that Tenant does not remove any unauthorized materials. Either party may request such removal within three (3) business days or earlier based on compelling business reasons by either party for more immediate access.

PAYMENT BY TENANT; NON-WAIVER

19. (a) PAYMENT BY TENANT. Upon any Event of Default, Tenant shall pay to Landlord all costs incurred by Landlord (including court costs and reasonable attorneys' fees and expenses) in (1) obtaining possession of the Premises, (2) removing and storing Tenant's or any other occupant's property, (3) repairing, restoring, altering, remodeling, or otherwise putting the Premises into condition acceptable to a new tenant, (4) if Tenant is dispossessed of the Premises and this Lease is not terminated, reletting all or any part of the Premises (including brokerage commissions, cost of tenant finish work, and other costs incidental to such reletting), (5) performing Tenant's obligations which Tenant failed to perform, and (6) enforcing, or advising Landlord of, its rights, remedies, and recourses arising out of the Event of Default.

(b) NO WAIVER. Landlord's acceptance of Rent following an Event of Default shall not waive Landlord's rights regarding such Event of Default. No waiver by Landlord of any violation or breach of any of the terms contained herein shall waive Landlord's rights regarding any future violation of such term or violation of any other term.

SURRENDER OF PREMISES

20. No act by Landlord shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept a surrender of the Premises shall be valid unless the same is made in writing and signed by Landlord. At the expiration or termination of this Lease, Tenant shall deliver to Landlord the Premises with all improvements located thereon in good repair and condition, reasonable wear and tear (and condemnation and fire or other casualty damage, as to which Sections 14 and 15 shall control) excepted, and shall deliver to Landlord all keys to the Premises. Provided that Tenant has performed all of its obligations hereunder, Tenant may remove all unattached trade fixtures, furniture, and personal property placed in the Premises by Tenant (but Tenant shall not remove any such item which was paid for, in whole or in part, by Landlord). Additionally, Tenant shall remove such alterations, additions, improvements, trade fixtures, equipment, wiring, and furniture that is installed or placed in the Premises by Tenant as Landlord may request, except for initial improvements pursuant to Exhibit D. Tenant shall repair all damage caused by such removal. All items not so removed shall be deemed to have been abandoned by Tenant and may be appropriated, sold, stored, destroyed, or otherwise disposed of by Landlord without notice to Tenant and without any obligation to account for such items. The provisions of this Section 20 shall survive the end of the Term.

HOLDING

OVER

21. If Tenant fails to vacate the Premises at the end of the Term, then Tenant shall be a tenant at will and, in addition to all other damages and remedies to which Landlord may be entitled for such holding over, Tenant shall pay, in addition to the other Rent, a daily Basic Rental equal to the greater of (a) 150% of the daily Basic Rental payable during the last month of the Term, or (b) the prevailing rental rate in the Building for similar space.

CERTAIN RIGHTS RESERVED BY LANDLORD

22. Provided that the exercise of such rights does not unreasonably interfere with Tenant's occupancy of the Premises, Landlord shall have the following rights:

(a) to decorate and to make inspections, repairs, alterations, additions, changes, or improvements, whether structural or otherwise, in and about the Building, or any part thereof; for such purposes, to enter upon the Premises and, during the continuance of any such work, to temporarily close doors, entryways, public space, and corridors in the Building; to interrupt or temporarily suspend Building services and facilities; and

to change the arrangement and location of entrances or passageways, doors, and doorways, corridors, elevators, stairs, restrooms, or other public parts of the Building;

(b) to take such reasonable measures as Landlord deems advisable for the security of the Building and its occupants, including without limitation searching all persons entering or leaving the Building; evacuating the Building for cause, suspected cause, or for drill purposes; temporarily denying access to the Building; and closing the Building after normal business hours and on Saturdays, Sundays, and holidays, subject, however, to Tenant's right to enter when the Building is closed after normal business hours under such reasonable regulations as Landlord may prescribe from time to time which may include by way of example, but not of limitation, that persons entering or leaving the Building, whether or not during normal business hours, identify themselves to a security officer by registration or otherwise and that such persons establish their right to enter or leave the Building;

(c) to change the name by which the Building is designated; and

(d) to enter the Premises accompanied by Tenant at all reasonable hours and upon giving Tenant reasonable notice (except in the case of any emergency) to show the Premises to prospective purchasers, lenders, or tenants (provided the space shall only be shown to prospective tenants in conjunction with reletting the Premises), subject to reasonable Tenant security and confidentiality procedures.

MISCELLANEOUS

24. (a) LANDLORD TRANSFER. Landlord may transfer, in whole or in part, the Building and any of its rights under this Lease. If Landlord assigns its rights under this Lease, and the assignee assumes all Landlord's obligation under this Lease, then Landlord shall thereby be released from any further obligations hereunder arising after the date of such transfer.

(b) LANDLORD'S LIABILITY. The liability of Landlord to Tenant for any default by Landlord under the terms of this Lease shall be limited to Tenant's actual direct, but not consequential, damages therefor and shall be recoverable from the interest of Landlord in the Building and the Land, and Landlord shall not be personally liable for any deficiency. This section shall not be deemed to limit or deny any remedies which Tenant may have in the event of default by Landlord hereunder which do not involve the personal liability of Landlord.

(c) FORCE MAJEURE. Other than for Tenant's monetary obligations under this Lease and obligations which can be cured by the payment of money (e.g., maintaining insurance), whenever a period of time is herein prescribed for action to be taken by either party hereto, such party shall not be liable or responsible for, and there shall be excluded from the computation for any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, governmental laws, regulations (including inability to obtain necessary permits due to no fault of Landlord or its contractors or agents), or restrictions, or any other causes of any kind whatsoever which are beyond the control of such party.

(d) BROKERAGE. Landlord and Tenant each warrant to the other that it has not dealt with any broker or agent in connection with the negotiation or execution of this Lease, except for Insignia/ESG of Texas, Inc. (Landlord's exclusive agent) and Colliers Oxford Commercial (Tenant's exclusive agent). Tenant and Landlord shall each indemnify the other against all costs, expenses, reasonable attorneys' fees, and other liability for commissions or other compensation claimed by any broker or agent claiming the same by, through, or under the indemnifying party.

(e) ESTOPPEL CERTIFICATES AND FINANCIAL INFORMATION. From time to time, Tenant shall furnish to any party designated by Landlord, within ten days after Landlord has made a request therefor, a certificate signed by Tenant confirming and containing such factual certifications and representations as to this Lease as Landlord may reasonably request. From time to time, Landlord shall furnish to any party designated by Tenant, within ten days after Tenant has made a request therefor, a certificate signed by Landlord confirming and containing such factual certifications and representations as to this Lease as Tenant may reasonably request. Further, from time to time (but not more often than once in any given six (6) month period), within ten days after

Landlord's request therefor, Tenant shall furnish to Landlord or Landlord's Mortgagee the most recent annual financial statements for Tenant.

(f) NOTICES. All notices and other communications given pursuant to this Lease shall be in writing and shall be (1) mailed by first class, United States Mail, postage prepaid, certified, with return receipt requested, and addressed to the parties hereto at the address specified in the Basic Lease Information, (2) hand delivered or delivered by overnight delivery service to the intended address, or (3) sent by prepaid telegram, cable, facsimile transmission, or telex followed by a confirmatory letter. Notice sent by certified mail, postage prepaid, shall be effective three business days after being deposited in the United States Mail; all other notices shall be effective upon delivery to the address of the addressee. The parties hereto may change their addresses by giving notice thereof to the other in conformity with this provision.

(g) SEPARABILITY. If any clause or provision of this Lease is illegal, invalid, or unenforceable under present or future laws, then the remainder of this Lease shall not be affected thereby and in lieu of such

clause or provision, there shall be added as a part of this Lease a clause or provision as similar in terms to such illegal, invalid, or unenforceable clause or provision as may be possible and be legal, valid, and enforceable.

(h) AMENDMENTS; AND BINDING EFFECT. This Lease may not be amended except by instrument in writing signed by Landlord and Tenant. No provision of this Lease shall be deemed to have been waived by Landlord unless such waiver is in writing signed by Landlord, and no custom or practice which may evolve between the parties in the administration of the terms hereof shall waive or diminish the right of Landlord to insist upon the performance by Tenant in strict accordance with the terms hereof. The terms and conditions contained in this Lease shall inure to the benefit of and be binding upon the parties hereto, and upon their respective successors in interest and legal representatives, except as otherwise herein expressly provided. This Lease is for the sole benefit of Landlord and Tenant, and, other than Landlord's Mortgagee, no third party shall be deemed a third party beneficiary hereof.

(i) QUIET ENJOYMENT. Provided Tenant has performed all of the terms and conditions of this Lease to be performed by Tenant, Tenant shall peaceably and quietly hold and enjoy the Premises for the Term, without hindrance from Landlord or any party claiming by, through, or under Landlord, subject to the terms and conditions of this Lease.

(j) JOINT AND SEVERAL LIABILITY. If there is more than one Tenant, then the obligations hereunder imposed upon Tenant shall be joint and several.

(k) CAPTIONS. The captions contained in this Lease are for convenience of reference only, and do not limit or enlarge the terms and conditions of this Lease.

(l) NO MERGER. There shall be no merger of the leasehold estate hereby created with the fee estate in the Premises or any part thereof if the same person acquires or holds, directly or indirectly, this Lease or any interest in this Lease and the fee estate in the leasehold Premises or any interest in such estate.

(m) NO OFFER. The submission of this Lease to Tenant shall not be construed as an offer, nor shall Tenant have any right under this Lease unless Landlord executes a copy of this Lease and delivers it to Tenant.

(n) EXHIBITS. All exhibits and attachments hereto are incorporated herein by this reference.

Exhibit A	-	Land
Exhibit A-1	-	Outline of Premises
Exhibit A-2	-	Project
Exhibit B	-	Building Rules and Regulation
Exhibit C	-	Basic Costs
Exhibit D	-	Tenant Finish-Work
Exhibit E	-	Parking
Exhibit F	-	Extension Option
Exhibit G	-	Subordination, Non-disturbance and Attornment Agreement

(o) ENTIRE AGREEMENT. This Lease constitutes the entire agreement between Landlord and Tenant regarding the subject matter hereof and supersedes all oral statements and prior writings relating thereto. Except for those set forth in this Lease, no representations, warranties, or agreements have been made by Landlord or Tenant to the other with respect to this Lease or the obligations of Landlord or Tenant in connection therewith.

HAZARDOUS SUBSTANCES

25. The term "HAZARDOUS SUBSTANCES," as used in this Lease shall mean pollutants, contaminants, toxic or hazardous wastes, or any other substances, the removal of which is required or the use of which is restricted, prohibited or penalized by any "ENVIRONMENTAL LAW," which term shall mean any Law relating to health, pollution, or protection of the environment. Tenant hereby agrees that a). no activity will be conducted on the Premises that will produce any Hazardous Substances, except for such activities that are part of the ordinary course of Tenant's business activities (the "PERMITTED ACTIVITIES") provided such Permitted Activities are conducted in accordance with all Environmental Laws and have been approved in advance in writing by Landlord; b). the Premises will not be used in any manner for the storage of any Hazardous Substances except for any temporary storage of such materials that are used in the ordinary course of Tenant's business (the

"PERMITTED MATERIALS") provided such Permitted Materials are properly stored in a manner and location satisfying all Environmental Laws and approved in advance in writing by Landlord; c). no portion of the Premises will be used as a landfill or a dump; d). Tenant will not install any underground tanks of any type; e). Tenant will not cause any surface or subsurface conditions to exist or come into existence that constitute, or with the passage of time may constitute a public or private nuisance; f). Tenant will not permit any Hazardous Substances to be brought onto the Premises, except for the Permitted Materials, and if so brought or found located thereon, the same shall be immediately removed by Tenant, with proper disposal, and all required cleanup procedures

shall be diligently undertaken pursuant to all Environmental Laws; g). Tenant will maintain on the Premises a list of all materials stored at the Premises for which a material safety data sheet (an "MSDS") was issued by the producers or manufacturers thereof, together with copies of the MSDS's for such materials, and shall deliver such list and MSDS copies to Landlord upon Landlord's request therefor; and h). Tenant shall remove all Permitted Materials from the Premises in a manner acceptable to Landlord before Tenant's right to possess the Premises is terminated. If at any time during or after the Term, the Premises are found to be so contaminated or subject to such conditions, Tenant shall defend, indemnify and hold Landlord harmless from all claims, demands, actions, liabilities, costs, expenses, damages and obligations of any nature arising from or as a result of the use of the Premises by Tenant, except for any conditions or contamination caused by Landlord. The foregoing indemnity shall survive termination or expiration of this Lease. Unless expressly identified on an addendum to this Lease, as of the date hereof there are no "Permitted Activities" or "Permitted Materials" for purposes of the foregoing provision and none shall exist unless and until approved in writing by the Landlord. Landlord may enter the Premises and conduct environmental inspections and tests therein as it may reasonably require from time to time, provided that Landlord shall use reasonable efforts to minimize the interference with Tenant's business. Such inspections and tests shall be conducted at Landlord's expense, unless they reveal the presence of Hazardous Substances brought by Tenant or its employees, representatives or agents to the Premises (other than Permitted Materials or those placed in the Premises by Landlord) or that Tenant has not complied with the requirements set forth in this Section 25, in which case Tenant shall reimburse Landlord for the cost thereof within ten days after Landlord's request therefor. In no event shall Tenant be liable for Hazardous Substances on the Premises prior to the Commencement Date, unless brought to the Premises by Tenant or its employees, representatives or agents.

LANDLORD'S LIEN

26. Tenant shall have the right to grant any security interests in Tenant's removable furniture, fixtures and equipment located in the Premises for the purpose of securing any indebtedness provided by a third party. Tenant may also lease such furniture, fixtures and / or equipment from one or more equipment lessors and grant security interests in such furniture, fixtures and/or equipment to such equipment lessors in connection with such leases. Upon request Landlord will execute one or more consent and/or subordination agreements subordinating any landlord's lien rights held by Landlord to any such security interests or leases. Notwithstanding the foregoing, in no event will Tenant have the right to grant any lien, mortgage or security interest in any portion of the Building or in this Lease.

SPECIAL PROVISIONS

27. Landlord agrees that Tenant may, at Tenant's expense, erect and maintain lettering bearing Tenant's name at the top position on the monument sign associated with the Building, such lettering to represent fifty percent (50%) of the graphical portion of such monument sign which is designated for use by tenants (subject to Landlord's reasonable approval of the size, design, form, content and location of such sign). If any other tenant in the Building which leases less space than the Premises is permitted to place signage on the Building, Tenant shall also be permitted to install and maintain a sign bearing Tenant's name on the exterior of the Building [such sign to be (i) larger than such other tenant's sign in proportion to the amount by which the square footage of the Premises exceeds the square footage of such other tenant's premises and (ii) mutually agreed to by Landlord and Tenant as to design, form, content and location]. Tenant shall be solely responsible for all costs of designing, installing and repairing such signage, diligently construct such building signage to completion in a good and workmanlike manner and maintain such signage in an attractive condition, and comply with all governmental codes and regulations. Upon termination or expiration of this Lease, Tenant shall remove such signage and repair any damage to the Building caused thereby at its sole cost and expense. Notwithstanding anything to the contrary contained in this Lease, Tenant hereby indemnifies and holds Landlord harmless against any claims, costs or expenses (including reasonable attorneys fees) in connection with any damages to property or injuries to persons arising out of the installation, removal or maintenance of such building signage.

28. Notwithstanding any thing contained in this Lease to the contrary, Landlord's obligations hereunder are specifically conditioned upon Landlord achieving Substantial Completion of the Premises not later than March 31, 2001, which date shall be extended day-for-day for each day of Tenant Delay (the "Outside Date"). In the event Landlord does not achieve

Substantial Completion of the Premises by the Outside Date, Tenant, as Tenant's sole and exclusive remedy, may terminate this Lease in writing at any time after the Outside Date and before Landlord achieves Substantial Completion of the Premises. In the event Tenant terminates this Lease pursuant to this paragraph, Landlord will return all advance payments of rent and Security Deposits theretofore paid to Landlord by Tenant and will reimburse and refund Tenant all monies theretofore paid by Tenant to Landlord as part of Total Construction Costs (in accordance with Exhibit D); provided, however, in no event shall such reimbursement of amounts paid for Total Construction Costs exceed an amount equal to the product of $6.00 multiplied by the number of rentable square feet within the Premises.

29. Notwithstanding anything contained in this Lease to the contrary, if Landlord fails to deliver the non-disturbance agreement to Tenant contemplated by Section 12(a) hereof executed by Landlord and Landlords' Mortgagee within thirty (30) days after the date this Lease is signed by Landlord and Tenant, Tenant shall have the right to terminate this Lease upon written notice to Landlord at any time prior to delivery of such agreement.

LANDLORD AND TENANT EXPRESSLY DISCLAIM ANY IMPLIED WARRANTY THAT THE PREMISES ARE SUITABLE FOR TENANT'S INTENDED COMMERCIAL PURPOSE, AND TENANT'S OBLIGATION TO PAY RENT HEREUNDER IS NOT DEPENDENT UPON THE CONDITION OF THE PREMISES OR THE PERFORMANCE BY LANDLORD OF ITS OBLIGATIONS HEREUNDER EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, AND, EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, TENANT SHALL CONTINUE TO PAY THE RENT, WITHOUT ABATEMENT, SETOFF, DEDUCTION, NOTWITHSTANDING ANY BREACH BY LANDLORD OF ITS DUTIES OR OBLIGATIONS HEREUNDER, WHETHER EXPRESS OR IMPLIED.

DATED as of the date first written above.

LANDLORD:

STRATUS 7000 WEST JOINT VENTURE
a Texas joint venture

By: STRATUS 7000 WEST, LTD., a Texas limited partnership, Joint Venturer

By: STRS, L.L.C., a Delaware limited liability company, General Partner

By STRATUS PROPERTIES INC., a Delaware corporation, its sole member

By: /s/ William H. Armstrong, III

William H. Armstrong, III
President and CEO

TENANT:

SILICON LABORATORIES INC.

By: /s/ Navdeep S. Sooch

Navdeep S. Sooch
Chairman and CEO

EXHIBIT A

LAND

PROPERTY DESCRIPTION

Lot 6, Block A, LANTANA LOT 6, BLOCK A, a subdivision in Travis County, Texas, according to the map or plat thereof, recorded in Volume 100, Page(s) 1 - 2 of the Plat Records of Travis County, Texas, as corrected by instrument recorded in Volume 13064, Page 278 of the Real Property Records of Travis County, Texas.

EXHIBIT A-1

OUTLINE OF PREMISES

[The architectual graphical layout of LEVEL TWO, Suite 200 indicating stairwells, elevators and corridors.]

EXHIBIT A-2

PROJECT

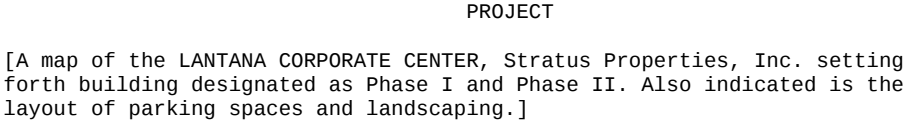
[A map of the LANTANA CORPORATE CENTER, Stratus Properties, Inc. setting forth building designated as Phase I and Phase II. Also indicated is the layout of parking spaces and landscaping.]

EXHIBIT B

BUILDING RULES AND REGULATIONS

The following rules and regulations shall apply to the Premises, the Building, the parking garage associated therewith, the Land and the appurtenances thereto:

1. Sidewalks, doorways, vestibules, halls, stairways, and other similar areas shall not be obstructed by tenants or used by any tenant for purposes other than ingress and egress to and from their respective leased premises and for going from one to another part of the Building.

2. Plumbing, fixtures and appliances shall be used only for the purposes for which designed, and no sweepings, rubbish, rags or other unsuitable material shall be thrown or deposited therein. Damage resulting to any such fixtures or appliances from misuse by a tenant or its agents, employees or invitees, shall be paid by such tenant.

3. No signs, advertisements or notices shall be painted or affixed on or to any windows or doors or other part of the Building without the prior written consent of Landlord. No nails, hooks or screws shall be driven or inserted in any part of the Building except by Building maintenance personnel. No curtains or other window treatments shall be placed between the glass and the Building standard window treatments.

4. Landlord shall provide and maintain an alphabetical directory for all tenants in the main lobby of the Building.

5. Landlord shall provide all door locks in each tenant's leased premises, at the cost of such tenant, and no tenant shall place any additional door locks in its leased premises without Landlord's prior written consent. Landlord shall furnish to each tenant a reasonable number of keys and card keys to such tenant's leased premises, at such tenant's cost, and no tenant shall make a duplicate thereof.

6. Movement in or out of the Building of furniture or office equipment, or dispatch or receipt by tenants of any bulky material, merchandise or materials which require use of elevators or stairways, or movement through the Building entrances or lobby shall be conducted under Landlord's supervision at such times and in such a manner as Landlord may reasonably require. Each tenant assumes all risks of and shall be liable for all damage to articles moved and injury to persons or public engaged or not engaged in such movement, including equipment, property and personnel of Landlord if damaged or injured as a result of acts in connection with carrying out this service for such tenant.

7. Landlord may prescribe weight limitations and determine the locations for safes and other heavy equipment or items, which shall in all cases be placed in the Building so as to distribute weight in a manner acceptable to Landlord which may include the use of such supporting devices as Landlord may require. All damages to the Building caused by the installation or removal of any property of a tenant, or done by a tenant's property while in the Building, shall be repaired at the expense of such tenant.

8. Corridor doors, when not in use, shall be kept closed. Nothing shall be swept or thrown into the corridors, halls, elevator shafts or stairways. No birds or animals shall be brought into or kept in, on or about any tenant's leased premises. No portion of any tenant's leased premises shall at any time be used or occupied as sleeping or lodging quarters.

9. Tenant shall cooperate with Landlord's employees in keeping its leased premises neat and clean. Tenants shall not employ any person for the purpose of such cleaning other than the Building's cleaning and maintenance personnel.

10. Tenant shall not make or permit any improper, objectionable or unpleasant noises or odors in the Building or otherwise interfere in any way with other tenants or persons having business with them.

11. No machinery of any kind (other than normal office equipment) shall be operated by any tenant on its leased area without Landlord's prior written consent, nor shall any tenant use or keep in the Building any flammable or explosive fluid or substance.

12. Landlord will not be responsible for lost or stolen personal property, money or jewelry from tenant's leased premises or public or common areas regardless of whether such loss occurs when the area is locked against entry or not.

13. All mail chutes located in the Building shall be available for use by Landlord and all tenants of the Building according to the rules of the United States Postal Service.

EXHIBIT C

BASIC COSTS

The term "BASIC COST" shall mean all expenses and disbursements of every kind (subject to the limitations set forth below) which Landlord incurs, pays or becomes obligated to pay in connection with the ownership, operation, and maintenance of the Building (including the associated parking facilities), determined in accordance with generally accepted federal income tax basis accounting principles consistently applied, including but not limited to the following:

1. Wages and salaries (including reasonable management fees) of all employees engaged in the operation, repair, replacement, maintenance, and security of the Building, including taxes, insurance and benefits relating thereto;

2. All supplies and materials used in the operation, maintenance, repair, replacement, and security of the Building;

3. Annual cost of all capital improvements made to the Building which although capital in nature can reasonably be expected to reduce the normal operating costs of the Building, as well as all capital improvements made in order to comply with any law hereafter promulgated by any governmental authority, as amortized over the useful economic life of such improvements as determined by Landlord in its reasonable discretion (without regard to the period over which such improvements may be depreciated or amortized for federal income tax purposes);

4. Cost of all utilities, other than the cost of utilities actually reimbursed to Landlord by the Building's tenants (including Tenant under Section 7.(b) of this Lease);

5. Cost of any insurance applicable to the Building and Landlord's personal property used in connection therewith;

6. Cost of repairs, replacements, and general maintenance of the Building; and

7. Cost of service or maintenance contracts with independent contractors for the operation, maintenance, repair, replacement, or security of the Building (including, without limitation, alarm service, window cleaning, and elevator maintenance).

The term "Basic Cost" shall also mean the Building's Proportionate Share of Taxes (described below) and all expenses and disbursements of every kind (subject to the limitations set forth below) which Landlord incurs , pays or becomes obligated to pay in connection with the ownership, operation and maintenance of the common areas of the Project (including the associated parking facilities, driveways and landscaped areas), determined in accordance with generally accepted federal income tax basis accounting principles consistently applied, including but not limited to the following:

(1) Annual cost of all capital improvements made to the common areas which although capital in nature can reasonably be expected to reduce the normal operating costs of the Project, as well as all capital improvements made in order to comply with any law hereafter promulgated by any governmental authority, as amortized over the useful economic life of such improvements as determined by Landlord in its reasonable discretion (without regard to the period over which such improvements may be depreciated or amortized for federal income tax purposes);

(2) Cost of all utilities for the common areas of the Project (including, without limitation, landscape irrigation and parking lot lighting), other than the costs of utilities actually reimbursed to Landlord by the tenants of the Project;

(3) Cost of any insurance applicable to the common areas of the Project and Landlord's personal property used in connection therewith;

(4) Cost of repairs, replacements and general maintenance of the common areas of the Project; and

(5) Cost of service or maintenance contracts with independent contractors for the operation, maintenance, repair and replacement of the common area improvements.

As used herein the term "TAXES" shall mean all taxes and assessments and governmental charges whether federal, state, county or municipal and whether they be by taxing or management districts or authorities presently taxing or by others, subsequently created or otherwise, and any other taxes and assessments attributable to the Project (or its operation), including the buildings and the grounds, parking areas, driveways and alleys around the buildings, excluding, however, federal and state taxes on income and Texas State Franchise Tax. If the present method of taxation changes so that in lieu of the whole or any part of

any Taxes levied on the Project, there is levied on Landlord a capital tax directly on the rents received therefrom or a franchise tax, assessment, or charge based, in whole or in part, upon such rents, then all such taxes, assessments, or charges, or the part thereof so based, shall be deemed to be included within the term "Taxes" for the purposes hereof.

There are specifically excluded from the definition of the term "Basic Cost" (a) costs for capital improvements made to the Building, other than capital improvements described in subparagraphs 3 and (1) above of this Exhibit and except for items which, though capital for accounting purposes, are properly considered maintenance and repair items, such as painting of common areas, replacement of carpet in elevator lobbies, and the like; for repair, replacements and general maintenance paid by proceeds of insurance or by Tenant or other third parties, and alterations attributable solely to tenants of the Building other than Tenant; for interest, amortization or other payments on loans to Landlord; for depreciation of the Building; for leasing commissions; for legal expenses, other than those incurred for the general benefit of the Building's tenants (e.g., tax disputes); for renovating or otherwise improving space for occupants of the Building or vacant space in the Building; for overtime or other expenses of Landlord in curing defaults or performing work expressly provided in this Lease to be borne at Landlord's expense; for federal income taxes imposed on or measured by the income of Landlord from the operation of the Building for state income taxes, net profits taxes, Texas Franchise taxes, estate and inheritance taxes, any utilities charged directly to and paid by Tenant or any other tenant of the Building or the Project; any amortization costs or rental expenses incurred with respect to machinery, equipment or improvements installed for the exclusive benefit of another tenant in the Project; improvements installed for the exclusive benefit of another tenant of the Project; management fees that exceed customary and standard management fees paid in arms length transactions and leasing and brokerage commissions and legal fees incurred in connection with Landlord's leasing of the Building or the Project or involving disputes with other tenants of the Project; personal property taxes owed by other tenants of any building of the Project; penalties and interest for late payment of taxes due by Landlord and timely paid by Tenant, or due to violation of laws or governmental regulations; costs of work or services furnished or performed on behalf of other tenants at such tenant's costs; fees payable to affiliates of Landlord outside the range of fees payable for similar services in the Austin area in an arms length transaction; capital repairs or improvements made to the Building which are covered by Landlord's warranties under the Lease or which are performed to correct design or structural defects or to bring the Building into conformity with applicable building codes in effect at the time of the construction of the Building; expenses in connection with special services for the exclusive benefit of another tenant in the Project.

EXHIBIT D

TENANT FINISH-WORK

1. Landlord, at its sole cost and expense, shall complete construction of the following components of the Premises: a) 14 VAV tenant boxes installed on each floor (diffusers and duct work not installed), b) perimeter fan- powered boxes installed along with related duct work and diffusers c). mechanically suspended lay-in acoustical tile ceiling grid with acoustical tile inventory stored on the floor of the Premises, d). recessed fluorescent light fixtures, up to a maximum of one fixture per 120 rentable square feet contained within the Premises, stored on the floor of the Premises, and e). sprinkler heads installed pursuant to FBA 13 standards in the Premises and other improvements set forth in Annex 1 to Exhibit D not otherwise set forth in this work letter. All such construction shall be completed by Landlord in a good and workmanlike manner and in accordance with all applicable laws and regulations (including all handicap accessibility laws).

2. On or before July 14, 2000, Tenant, at its sole cost and expense, shall provide to Landlord for its approval final working drawings, prepared by STG Partners, Inc., of all improvements that Tenant proposes to install in the Premises; such working drawings shall include the partition layout, ceiling plan, electrical outlets and switches, telephone outlets, drawings for any modifications to the mechanical and plumbing systems of the Building, and detailed plans and specifications for the construction of the improvements called for under this Exhibit in accordance with all applicable governmental laws, codes, rules, and regulations. Further, if any of Tenant's proposed construction work will affect the Building's HVAC, electrical, mechanical, or plumbing systems, then the working drawings pertaining thereto shall be prepared by or reviewed by the Building's engineer of record, whom Tenant shall at its cost engage for such purpose. As used herein, "WORKING DRAWINGS" shall mean the final working drawings approved by Landlord, as amended from time to time by any approved changes thereto, and "WORK" shall mean all improvements to be constructed in accordance with and as indicated on the Working Drawings. Approval by Landlord of the Working Drawings shall not be a representation or warranty of Landlord that such drawings are adequate for any use, purpose, or condition, or that such drawings comply with any applicable law or code, but shall merely be the consent of Landlord to the performance of the Work. Tenant shall, at Landlord's request, sign the Working Drawings to evidence its review and approval thereof. All changes in the Work must receive the prior written approval of Landlord, and in the event of any such approved change Tenant shall, upon completion of the Work, furnish Landlord with an accurate, reproducible "as-built" plan (e.g., sepia) of the improvements as constructed, which plan shall be incorporated into this Lease by this reference for all purposes. Landlord shall promptly review and approve all such drawings and Landlord's approvals shall not be unreasonably withheld, conditioned or delayed.

3. After the Working Drawings have been approved, Landlord shall cause the Work to be performed in accordance with the Working Drawings and all applicable laws, rules, regulations, permits, required governmental consents and entitlements. The contractor, Tenant and the interior design architect may inspect the Work as it progresses. Landlord shall be available, and cause its subcontractors and architect to be reasonably available, to Tenant or the interior design architect from time to time, on reasonable prior notice, as necessary or desirable to review the Work. Landlord shall submit to Tenant the proposed construction schedule for the Work. Landlord shall promptly inform Tenant of any material delays encountered in completing the Work and shall promptly deliver to Tenant, and consult with Tenant with respect to, all revisions of the construction schedules therefor.

4. Tenant Delays means any delay by Tenant in providing, or change by Tenant to, the Working Drawings, any delay because of any specification by Tenant of materials or installations in addition to or other than Landlord's standard finish-out materials, or any other delays caused by Tenant in completion of the Work. No Tenant Delays pursuant to the immediately preceding sentence shall be deemed to have occurred unless Landlord notifies Tenant in writing within ten (10) days after the initial cause of the delay of the specific delay; provided that the date the Tenant Delay is deemed to commence shall be the date of the initial cause of the delay, not the date of the notice. Notwithstanding the foregoing, Tenant's failure to provide final working drawings by July 14, 2000, in accordance with Paragraph 2 of this Exhibit D shall automatically be deemed to be a Tenant Delay, and Landlord shall not be required to give Tenant notice thereof. There shall further be excluded from the number of days of Tenant Delays any days of delay which are caused by any act or omission of Landlord, its agents or contractors, including the failure to timely provide to Tenant and/or its agents and representatives complete information regarding the Building necessary for the preparation of the Working Drawings. Subject to Section 28 of the Lease, if the Premises are not ready for occupancy and the Work is not Substantially Completed on the scheduled Commencement Date for any reason other than Tenant Delays, then the obligations of Landlord and Tenant shall continue in full force and Basic Rental and Tenant's Proportionate Share of Basic Costs shall be abated until the date the Work is Substantially Completed, which date shall be the Commencement Date.

5. Tenant shall bear the entire cost of performing the Work (including, without limitation, costs of design, construction, labor and materials, additional janitorial services, related taxes and insurance costs, all of which costs are herein collectively called the "TOTAL CONSTRUCTION

COSTS") in excess of the Construction Allowance (hereinafter defined). Upon approval of the Working Drawings, Landlord shall obtain bids for the Work from at least three (3) contractors (all of whom shall be approved by Tenant, which approval shall not unreasonably withheld). Following selection of a contractor, Tenant shall promptly execute a work order agreement prepared by Landlord which identifies such drawings, itemizes the Total Construction Costs and sets forth the Construction Allowance, and

pay to an escrow account in an acceptable financial institution to Landlord 50% of the amount by which the estimated Total Construction Costs exceed the Construction Allowance. Payments from both the escrow account and directly from Tenant will be paid at times and within proportion of construction draws on the Total Construction Costs. Upon Substantial Completion of the Work and before Tenant occupies the Premises to conduct business therein, Tenant shall pay to Landlord an amount equal to the Total Construction Costs (as adjusted for any approved changes to the Work), less 1). the amount of the payments already made by Tenant, 2). the amount of the Construction Allowance, and 3). the cost reasonably estimated by Landlord for completing all "punch list" items; finally, upon completion of the punch list items, Tenant shall pay to Landlord any additional costs incurred in completing the same.

6. Landlord shall provide to Tenant a construction allowance (the "CONSTRUCTION ALLOWANCE") equal to the lesser of a). $22.00 per rentable square foot in the Premises or b). the Total Construction Costs, as adjusted for any approved changes to the Work.

7. Landlord or its affiliate shall manage the Work, make disbursements required to be made to the contractor, and act as a liaison between the contractor and Tenant and coordinate the relationship between the Work, the Building, and the Building's systems. In consideration for Landlord's construction management services, Tenant shall pay to Landlord a construction management fee equal to three and one-half percent (3 1/2%) of the Total Construction Costs.

8. Except as set forth in this Exhibit, Tenant accepts the Premises in their newly constructed condition on the date that this Lease is entered into.

9. Landlord shall ensure that the right to require work under warranties of all subcontractors, manufacturers and suppliers relating to items for which Tenant is responsible for the maintenance and repair thereof be enforceable by Tenant and, upon Tenant's written request, Landlord shall provide a copy of any such warranty to Tenant.

10. Landlord shall require that the contractor provide a final cleaning of the Premises immediately before Tenant's acceptance of Substantial Completion, consisting of cleaning to a condition expected for a good building cleaning and maintenance program.

- - Finished entrance, elevators and elevator lobbies
- - Finished restrooms
- - Perimeter walls insulated
- - Perimeter walls and column enclosures installed and ready for paint
- - Ceiling grid installed
- - 2 ft. X 2 ft. Tegular ceiling tile stacked on the floor
- - Finished stairways
- - Public/common area lighting installed
- - Tenant space light fixtures stocked on floor, 1:120 RSF
- - 14 VAV tenant boxes installed on each floor (diffusers and ductwork are not installed)
- - Perimeter fan-powered boxes installed along with related ductwork and diffusers
- - Automated "on-demand" systems for after-hours HVAC
- - Electrical capacity: (1) 4 watts per RSF available for tenant' use at electrical closet; (2) upgrade capability to 6.5 watts per RSF, provided by City of Austin Power and Light
- - Water and Wastewater service provided by City of Austin
- - Telephone services provided by Southwestern Bell
- - Conduit providing access to fiber optic network at front of property along street right-of-way as well as between buildings.

EXHIBIT E

PARKING

Tenant shall be permitted to use one hundred thirty-three (133) undesignated vehicular parking spaces (including visitor and handicap) and eighteen (18) reserved covered parking spaces in the surface parking lot (the "PARKING FACILITIES") associated with the Building during the Term, including any extensions and renewals and subject to such terms, conditions and regulations as are from time to time applicable to patrons of the Parking Facilities. These parking rights will be at no charge during the initial term.

EXHIBIT F

EXTENSION OPTION

Provided no Event of Default exists and Tenant is occupying not less than 50% of the Premises at the time of such election, Tenant may renew this Lease for one (1) additional period of five (5) years on the same terms provided in this Lease (except as set forth below), by delivering written notice of the exercise thereof to Landlord not later than two hundred seventy (270) days before the expiration of the Term. On or before the commencement date of the extended Term, Landlord and Tenant shall execute an amendment to this Lease extending the Term on the same terms provided in this Lease, except as follows:

1. The Basic Rental payable for each month during such extended Term shall be the prevailing market rental rate in Austin's suburban office market, at the commencement of such extended Term, for space of equivalent quality, size, utility and location; rental concessions, tenant improvements and refurbishment allowances, moving allowances, architectural allowances, parking rental concessions, brokerage commissions, other inducements, and all other relevant factors, provided each of the foregoing applies to renewals or is adjusted to reflect the fact that the determination of market rent is for a renewal, with the length of the extended Term and the credit standing of Tenant to be taken into account;

2. Tenant shall have no further renewal options unless expressly granted by Landlord in writing; and

3. Landlord shall lease to Tenant the Premises in their then-current condition, and Landlord shall not provide to Tenant any allowances (e.g., moving allowance, construction allowance, and the like) or other tenant inducements.

4. If Landlord and Tenant fail to agree on the fair market rental value of the Leased Premises on or before one hundred eighty (180) days prior to the expiration of the term of this Lease, Landlord and Tenant shall cooperate to appoint an independent appraiser or broker to determine the fair market rental value. If Landlord and Tenant cannot agree upon such an appraiser or broker within one hundred sixty-five (165) days prior to the expiration of the term of the Lease, Landlord and Tenant, respectively, shall, within five (5) days, each appoint an independent appraiser or broker to determine the fair market rental value. If such independent appraisers or brokers cannot agree on upon the fair market rental value within fifteen (15) days after the expiration of such five (5) day period, such independent appraisers or brokers shall appoint a third independent appraiser or broker, whose determination shall be conclusively binding on Landlord and Tenant so long as it is not less than the lower or more than the higher of the determinations of the two other appraisers or brokers.

Tenant's rights under this Exhibit shall terminate if (a) this Lease or Tenant's right to possession of the Premises is terminated, (b) Tenant assigns any of its interest in the Lease or sublets any portion of the Premises (except to a Permitted Transferee) or sublets more than 50% of the Premises (other than to a Permitted Transferee) for the remaining term of the Lease or (c) Tenant fails to timely exercise its option under this Exhibit, time being of the essence with respect to Tenant's exercise thereof.

EXHIBIT G

WHEN RECORDED, RETURN TO:

Lynda Zimmerman, Esq.
Winstead Sechrest & Minick P.C.
5400 Renaissance Tower
1201 Elm Street
Dallas, Texas 75270

SUBORDINATION, ATTORNMENT AND NON-DISTURBANCE AGREEMENT

This SUBORDINATION, ATTORNMENT AND NON-DISTURBANCE AGREEMENT ("AGREEMENT") is made and entered into as of October 29, 1999 by and between COMERICA BANK-TEXAS, a state banking association ("BENEFICIARY"); STRATUS 7000 WEST JOINT VENTURE, a Texas joint venture ("LESSOR"); and SILICON LABORATORIES, INC., a Delaware Corporation, ("Lessee").

W I T N E S S E T H:

WHEREAS, Beneficiary is the owner and holder of that certain Promissory Note ("NOTE") dated April 9, 1999, in the principal sum of SIX MILLION SIX HUNDRED THOUSAND AND NO/100 DOLLARS ($6,600,000.00), secured by that certain Deed of Trust ("DEED OF TRUST"), dated of even date with the Note, executed by Lessor to a trustee in favor of Beneficiary, recorded on April 16, 1999, as Document No. 1999009453 in the Official Public Records of Travis County, Texas, which Deed of Trust constitutes a lien on the land described in EXHIBIT A attached hereto and incorporated herein by reference for all purposes and the improvements now or hereafter located thereon ("PROPERTY"); and

WHEREAS, Lessee is the holder of a leasehold estate in and to all or a portion of the Property (the property which is the subject of such leasehold estate being referred to as the "DEMISED PREMISES") pursuant to the terms of that certain lease agreement ("LEASE") dated October 27, 1999, and executed by and between Lessee, as the tenant, and Lessor, as the landlord; and

WHEREAS, Lessor, Lessee and Beneficiary desire to confirm their understandings with respect to the Lease and the Deed of Trust.

NOW, THEREFORE, in consideration of the mutual and dependent covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and confessed, the parties hereto agree and covenant as follows:

1. SUBORDINATION. Subject to the terms of this Agreement, the Lease now is, and shall at all times continue to be, subject, inferior and subordinate in each and every respect to the lien of the Deed of Trust and to any and all renewals, amendments, modifications, extensions, substitutions, replacements, increases and/or consolidations of the Deed of Trust and/or Note, and the lien of the Deed of Trust, and any and all renewals, amendments, modifications, extensions, substitutions, replacements, increases and/or consolidations of the Deed of Trust and/or the Note, shall be and remain, in each and every respect, prior and superior to the Lease. This Agreement shall be the whole and only agreement with regard to the subordination of the Lease to the lien of the Deed of Trust and shall supersede and cancel, insofar as same may affect the priority between the Deed of Trust and the Lease, any prior agreements or provisions relating to the subordination of the Lease to the lien of the Deed of Trust, including, without limitation, those provisions, if any, contained in the Lease which provide for the subordination thereof to the lien of any deed of trust, mortgage or other security agreement. Nothing herein contained shall be deemed or construed as limiting or restricting the enforcement by Beneficiary of any of the terms, covenants, provisions or remedies specified in the Deed of Trust, whether or not consistent with the Lease, including (without

limitation) any rights, remedies, privileges and recourses of Beneficiary with respect to insurance proceeds and condemnation awards with respect to the Demised Premises or the Property. The Lease is herein made subordinate to the aforementioned instruments only and not to any other encumbrances placed upon or against the Demised Premises. This provision is declared by Beneficiary and Lessee to be effective and self-operative, without the execution of any further instruments on the part of any of the parties hereto.

2. PURCHASER. As used herein, the term "PURCHASER" shall be deemed to include Beneficiary and any of its successors and assigns; including anyone who shall have succeeded to Lessor's interest in the Demised Premises by, through or under judicial foreclosure sale, non-judicial foreclosure sale or other similar proceedings brought pursuant to the Deed of Trust, deed in lieu of such foreclosure, other proceedings brought by Beneficiary under or with respect to the Note or Deed of Trust, or otherwise.

3. ATTORNMENT. If the interests of Lessor in and to the Demised Premises become owned by Beneficiary or another Purchaser by reason of judicial foreclosure, non-judicial foreclosure by the trustee under the Deed of Trust, other proceedings brought by Beneficiary or Purchaser or by any other manner, including, but not limited to, Beneficiary's exercise of its rights under any collateral assignment(s) of leases and rents, whereby Purchaser succeeds to the interest of the Lessor under the Lease, Lessee shall be bound to Purchaser in accordance with all of the terms, covenants and conditions of the Lease for the balance of the term thereof and any extension thereof duly exercised by Lessee with the same force and effect as if Purchaser were the lessor under the Lease. Lessee does hereby attorn to Purchaser, as its lessor, which attornment shall be effective and self-operative, without the execution of any further instruments on the part of any of the parties hereto, immediately upon Purchaser's succeeding to the interest of the Lessor under the Lease; provided, however, that Lessee shall be under no obligation to pay rent to Purchaser until Lessee receives written notice from Purchaser that it has succeeded to the interest of the Lessor under the Lease, and upon receipt of such notice, Lessee shall pay to Purchaser all rental and other payments required under the Lease for the duration of the term of the Lease and any extensions thereof duly exercised by Lessee and lessor hereby consents to such payments. The respective rights and obligations of Lessee and Purchaser upon such attornment, to the extent of the then remaining balance of the term of the Lease and any extension thereof duly exercised, shall be and are the same as now set forth therein, it being the intention of the parties hereto for this purpose to incorporate the Lease in this Agreement by reference, with the same force and effect as if expressly set forth herein.

4. NON-DISTURBANCE. In the event of a foreclosure of the lien of the Deed of Trust, so long as Lessee is not in default (beyond any period given in the Lease to Lessee to cure such default) in the payment of rent or in the performance of any of the terms, covenants or conditions of the Lease on Lessee's part to be performed, Lessee's possession, use and occupancy of the Demised Premises pursuant to the Lease shall not be extinguished or terminated by such foreclosure nor interfered with or disturbed by Purchaser during the term of the Lease and any extension thereof duly exercised by Lessee. If at, or subsequent to, the time that Purchaser shall acquire, in whatever manner, title to the Property or Lessor's title or interest in the Demised Premises (subject to the Lease), or from time to time thereafter, any default exists or occurs under the Lease, then Purchaser shall be entitled to exercise or enforce any and all rights, privileges, remedies and recourses which it may have against Lessee under or pursuant to the Lease or other applicable law (including, without limitation, the termination of the Lease, the dispossession of Lessee from the Demised Premises, or the prosecution of an action for breach of the Lease), notwithstanding the provisions of this Agreement.

5. PURCHASER'S OBLIGATIONS. If Purchaser shall succeed to the interest of Lessor under the Lease, Purchaser shall be bound to Lessee under all of the terms, covenants and conditions of the Lease and shall recognize and observe all of Lessee's rights and privileges under this Lease; provided, however, that Purchaser shall not be:

(a) liable for any act or omission of any prior lessor (including Lessor) under the Lease; or

(b) subject to any offsets or defenses which Lessee might have against any prior lessor (including Lessor) under the Lease; or

(c) bound by any rent, additional rent, advance rent or other monetary obligations which Lessee might have paid for more than the current month to any prior lessor (including Lessor) under the Lease and which is not delivered or paid to Purchaser at the time of Purchaser's succession to title to the Demised Premises, and all such rent or other monetary obligations shall remain due and owing, notwithstanding such advance payment, and with respect to which Lessee agrees to look solely to Lessor for refund or reimbursement; or

(d) bound by any security deposit of any type or advance rental deposit made by Lessee under the Lease which is not delivered or paid to Purchaser at the time of Purchaser's succession to title to the Demised Premises, and with respect to which Lessee agrees to look solely to Lessor for refund or reimbursement; or

(e) bound by any amendment, modification, supplementation, termination or cancellation of the Lease made without Beneficiary's or Purchaser's prior written consent and approval; or

(f) required to complete the construction of any improvements or otherwise perform the obligations of Lessor under the Lease in the event that Purchaser acquires title to the Property prior to full completion and acceptance by Lessee of improvements required under the Lease; or

(g) liable or responsible under or pursuant to the terms of the Lease after it ceases to own an interest in or to the Demised Premises.

6. REPRESENTATIONS. Lessor and Lessee represent, warrant and certify to Beneficiary (and Purchaser), as of the date hereof, as follows:

(a) the Lease is presently in full force and effect;

(b) the Lease has not been cancelled, terminated, modified, amended, supplemented, replaced, restated or otherwise changed, either orally or in writing, except as herein expressly provided;

(c) all conditions or requirements specified in the Lease that could have been satisfied as of the date hereof have been fully satisfied;

(d) no rent under the Lease has been paid for more than the current rental period established in the Lease;

(e) no default (or any event, condition or circumstance, which with notice, grace or lapse of time could constitute a default) exists under said Lease;

(f) Lessee, as of this date, has no charge, lien or claim of offset under said Lease or otherwise against rents or other charges due or to become due under the Lease;

(g) the Lease constitutes the entire agreement between the Lessee and Lessor and that Purchaser shall have no liability or responsibility with respect to any security deposit or advance rental deposit made by the Lessee except to the extent actually delivered and paid to Purchaser concurrently with Purchaser's succession in interest to the Demised Premises;

(h) the only persons or entities in possession of the Demised Premises or having any right to the possession, use or occupancy of the Demises Premises (other than the record owner or holders of recorded easements) is Lessee; and

(i) Lessee has no right or interest in or under any contract, option or agreement (other than as shown in the Lease) involving the sale or transfer of the Demised Premises or the expansion of the Demised Premises or extension of the term of the Lease.

Lessor and Lessee further agree to execute and deliver to Beneficiary, promptly upon request of Beneficiary and without charge, a written updated certification of the representations, warranties and

certifications provided in this SECTION 6 to the extent then accurate (or if any are not accurate, an explanation of the circumstances of any inaccuracy).

7. NEGATIVE COVENANTS. In the absence of the prior written consent of Beneficiary (or Purchaser), Lessee agrees not to do any of the following: (a) prepay the rent or other monetary obligations under the Lease for more than one (1) month in advance, (b) enter into any agreement, whether oral or written, with the Lessor to amend, modify, supplement, replace, restate or otherwise change the Lease, (c) voluntarily surrender the Demised Premises or terminate the Lease except as expressly provided for in the Lease to the contrary, and (d) sublease or assign all or any portion of the Demised Premises or the Lease except as expressly provided for in the Lease to the contrary.

8. DEFAULT. In the event Lessor shall fail to perform or observe any of the terms, conditions or agreements in the Lease, Lessee shall, as a condition precedent to any action with respect to such default under the Lease, give written notice thereof to Beneficiary and Beneficiary shall have the right (but not the obligation) to cure such default. Lessee shall not take any action with respect to such default under the Lease, including without limitation any action in order to terminate, rescind or avoid the Lease or to withhold any rent or other monetary obligations thereunder except as expressly provided for in the Lease to the contrary, for a period of thirty (30) days after receipt of such written notice by Beneficiary; provided, however, that in the case of any default which cannot with diligence be cured within said thirty (30) day period, if Beneficiary shall proceed promptly to cure such default and thereafter prosecute the curing of such default with diligence and continuity, the time within which such default may be cured shall be extended for such period as may be necessary to complete the curing of such default with diligence and continuity.

9. NOTICES. All notices or other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be considered as properly given if (i) mailed by first class United States mail, postage prepaid, registered or certified with return receipt requested; (ii) by delivering same in person to the intended addressee; or (iii) by delivery to an independent third party commercial delivery service for same day or next day delivery and providing for evidence of receipt at the address of the intended addressee. Notice so mailed shall be effective upon its deposit with the United States Postal Service or any successor thereto; notice sent by a commercial delivery service shall be effective upon delivery to such commercial delivery service; notice given by personal delivery shall be effective only if and when received by the addressee; and notice given by other means shall be effective only if and when received at the office or designated address of the intended addressee. For purposes of notice, the addresses of the parties shall be as set forth below; provided, however, that either party shall have the right to change its address for notice hereunder to any other location within the continental United States by the giving of thirty (30) days notice to the other party in the manner set forth herein.

Beneficiary: Comerica Bank-Texas
1601 Elm Street, 2nd Floor
Dallas, Texas 75201
Attention: National Real Estate Services

Lessor: Stratus 7000 West Joint Venture
98 San Jacinto Boulevard
Suite 220
Austin, Texas 78701
Attn: William H. Armstrong, III

Lessee: Silicon Laboratories, Inc.
4635 Boston Lane
Austin, Texas 78735

10. COUNTERPARTS. To facilitate execution, this instrument may be executed in as many counterparts as may be convenient or required. It shall not be necessary that the signature or acknowledgment of, or on behalf of, each party, or that the signature of all persons required to bind any party, or the acknowledgment of such party, appear on each counterpart. All counterparts shall collectively constitute a single instrument. It shall not be necessary in making proof of this instrument to produce or account for more than a single counterpart containing the respective

signatures of, or on behalf of, and the respective acknowledgments of, each of the parties hereto. Any signature or acknowledgment page to any counterpart may be detached from such counterpart without impairing the legal effect of the signatures or acknowledgments thereon and thereafter attached to another counterpart identical thereto except having attached to it additional signature or acknowledgment pages.

11. AMENDMENT. This Agreement may not be modified orally or in any manner other than by an agreement, in writing, signed by the parties hereto or their respective successors in interest.

12. SUCCESSORS. This Agreement shall inure to the benefit of and be binding upon the parties hereto, their successors and assigns.

13. REMEDIES CUMULATIVE. All remedies provided for herein are cumulative and shall be in addition to, but not in lieu of, any and all other rights and remedies provided by law and by any and all other agreements between Beneficiary and either Lessor or Lessee.

14. FURTHER ASSURANCES. At the request of Beneficiary, Lessor and Lessee shall execute, acknowledge, and deliver such other documents and/or instruments as may be reasonably required by Beneficiary in order to effectuate the intent and purpose of this Agreement; provided, however, that no such document or instrument shall modify the rights and obligations of Lessor and Lessee as provided herein.

15. ATTORNEYS' FEES. The prevailing party in any action brought against the other parties hereto to enforce any rights, obligations or duties under this Agreement shall be entitled to recover from the nonperforming party the prevailing party's reasonable costs and expenses (including attorneys' fees) incurred in connection with the enforcement hereof.

16. TERMINATION. This Agreement shall be of no further force and effect and shall become null and void upon the recording in the applicable records of Beneficiary's written release of the lien of the Deed of Trust.

17. NO ORAL AGREEMENTS. THIS AGREEMENT EMBODIES THE FINAL, ENTIRE AGREEMENT OF THE PARTIES HERETO AND SUPERSEDES ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS, AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF. THIS AGREEMENT IS INTENDED BY THE PARTIES HERETO AS A FINAL AND COMPLETE EXPRESSION OF THE TERMS OF THIS AGREEMENT AND NO COURSE OF DEALING BETWEEN THE PARTIES HERETO, NO COURSE OF PERFORMANCE, NO TRADE PRACTICES, AND NO EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OR OTHER EXTRINSIC EVIDENCE OF ANY NATURE SHALL BE USED TO CONTRADICT, VARY, SUPPLEMENT OR MODIFY ANY TERM OF THIS AGREEMENT. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES HERETO.

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

BENEFICIARY:

COMERICA BANK-TEXAS,
a state banking association

By: /s/ Shery R. Layne

Name: Shery R. Layne

Title: Vice President

LESSOR:

STRATUS 7000 WEST JOINT VENTURE,
a Texas joint venture

By: Stratus 7000 West, Ltd.,
a Texas limited partnership,
Joint Venturer

By: STRS L.L.C.,
a Delaware limited liability company,
Its General Partner

By: Stratus Properties, Inc.,
a Delaware corporation,
Its Sole Member

By: /s/ William H. Armstrong, III

Name: William H. Armstrong, III
Title: President and Chief
Executive Officer

By: OLY LANTANA, L.P., a Texas limited
partnership, Joint Venturer

By: OLY LANTANA, GP, L.L.C., a Texas
limited liability company, its
General Partner

By: /s/ Hal R. Hall

Name:

Title:

LESSEE:

SILICON LABORATORIES, INC.
a Delaware corporation

By: /s/ Navdeep S. Sooch

Name: NAVDEEP S. SOOCH

Title: CHAIRMAN & CEO

STATE OF TEXAS)
)
COUNTY OF DALLAS)

This instrument was ACKNOWLEDGED before me on the 4th day of NOVEMBER, 1999 by SHERY R. LAYNE, the VICE PRESIDENT of COMERICA BANK-TEXAS, a state banking association, on behalf of said association.

[SEAL] /s/ Kristine K. Finn

Notary Public, State of Texas

My Commission Expires:

Printed Name of Notary Public

- ---

STATE OF TEXAS)
)
COUNTY OF TRAVIS)

The foregoing instrument was ACKNOWLEDGED before me this 29th day of October, 1999, by William H. Armstrong, III, the President and Chief Executive Officer of STRATUS PROPERTIES, INC., a Delaware corporation and the Sole Member of STRS L.L.C., a Delaware limited liability company and the General Partner of STRATUS 7000 WEST, LTD., a Texas limited partnership and Operating Partner of STRATUS 7000 WEST JOINT VENTURE, a Texas joint venture, on behalf of each of said entities.

[SEAL] /s/ Mary Bradley

Notary Public, State of Texas

My Commission Expires:

MARY BRADLEY

June 16, 2002 (Printed Name of Notary Public)
- ---

STATE OF TEXAS)
)
COUNTY OF DALLAS)

The foregoing instrument was ACKNOWLEDGED before me this 2 day of NOVEMBER, 1999, by Hal Hall, the Vice Pres. of OLY Lantana G.P., L.L.C., general partner of OLY Lantana, L.P., a Texas limited partnership, Joint Venturer, of STRATUS 7000 WEST JOINT VENTURE, on behalf of said entities.

[SEAL] /s/ Kerry A. Nunn

Notary Public, State of Texas

My Commission Expires:

KERRY A. NUNN

Oct 6 2002 (Printed Name of Notary Public)
- ---

STATE OF TEXAS)
)
COUNTY OF TRAVIS)

This instrument was ACKNOWLEDGED before me on the 29th day of October, 1999, by NAVDEEP S. SOOCH, the Chairman & CEO of SILICON LABORATORIES, INC., a Delaware Corporation on behalf of corporation.

[SEAL] /s/ Lynette L. Herr

Notary Public, State of Texas

My Commission Expires:

Lynette L. HERR

4/27/02 Printed Name of Notary Public

- ---

EXHIBIT LIST

Exhibit A - Legal Description

5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM BALANCE SHEET AND STATEMENT OF OPERATIONS OF THIS QUARTERLY REPORT ON FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

6-MOS
DEC-30-2000
JAN-02-2000
JUL-01-2000
83,495
22,195
11,204
629
6,792
124,615
23,710
5,298
143,280
13,766
0
0
0
0
5
121,928
143,280
43,973
43,973
15,146
15,146
17,164
0
618
12,551
5,365
7,186
0
0
0
7,186
0.22
0.15