

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2001

Or

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

For the transition period from _____ to _____

Commission file 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. 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:

Indicate the number of shares outstanding of each of the issuer's classes
of common stock, as of the latest practicable date. As of October 11, 2001,
48,558,641 shares of common stock of Silicon Laboratories Inc. were outstanding.

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nine months ended September 29, 2001 and September 30,
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PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

SEPTEMBER 29, 2001	DECEMBER 30, 2001	2000	-----
----- ASSETS (UNAUDITED) Current			
assets: Cash and cash			
equivalents.....	\$ 70,519	\$	
51,902 Short-term			
investments.....	24,683		
44,536 Accounts receivable, net of allowance			
for doubtful accounts of \$432 at September			
29, 2001 and \$758 at December 30,			
2000.....	10,689	13,616	
Inventories.....			
5,834 7,219 Deferred income			
taxes.....	1,048	1,719	
Prepaid expenses and			
other.....	3,109	1,119	-----
----- Total current			
assets.....	115,882		
120,111 Property, equipment and software,			
net.....	20,830	22,625	
Goodwill and			
other intangible assets.....	221		
39,686 Other			
assets.....			
2,468 2,418 ----- Total			
assets.....			
\$139,401 \$184,840 =====			
LIABILITIES AND STOCKHOLDERS' EQUITY Current			
liabilities: Accounts			
payable.....	\$ 6,482		
\$ 8,728 Accrued			
expenses.....	3,347		
2,406 Deferred			
revenue.....	2,537		
2,640 Current portion of long-term			
obligations.....	2,072	2,078	
Income taxes			
payable.....	-- 912	----	
----- Total current			
liabilities.....	14,438		
16,764 Long-term debt and			
leases.....	1,865	3,390	
Other long-term			
obligations.....	948	1,735	--
----- Total			
liabilities.....			
17,251 21,889 Stockholders' equity: Common			
stock--\$.0001 par value; 250,000 shares			
authorized; 48,552 and 48,117 shares issued			
and outstanding at September 29, 2001 and			
December 30, 2000,			
respectively.....			
5 5 Additional paid-in			
capital.....	169,207	165,404	

Stockholder notes		
receivable.....	(985)	(1,202)
Deferred stock		
compensation.....	(19,880)	
(21,061) Retained earnings (accumulated		
deficit).....	(26,197)	19,805

Total stockholders'		
equity.....	122,150	162,951

Total liabilities		
and stockholders' equity.....	\$139,401	
\$184,840	=====	=====

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

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SILICON LABORATORIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

THREE MONTHS ENDED	NINE MONTHS ENDED		
-----	-----	-----	-----
---	SEPTEMBER 29,	SEPTEMBER 30,	
2000	2001	2000	2001
-----	-----	-----	-----
Revenues.....	\$19,925	\$29,427	\$50,482
			\$73,400
Cost of			
revenues.....	8,544		
10,130	22,347	25,277	-----

	Gross		
profit.....	11,381	19,297	28,135
			48,123
Operating expenses: Research and			
development.....	7,672	5,263	
21,251	13,290	Selling, general	
and administrative.....			
5,362	5,128	14,197	12,702
Write			
off of in-process research &			
development.....	-- 394	-- 394	
Goodwill amortization.....	-		
- 1,240	4,187	1,240	Impairment
of goodwill and other intangible			
assets.....	34,885	-- 34,885	--
Amortization of deferred stock			
compensation.....	1,319	884	
3,981	2,451	-----	-----

	Operating		
expenses.....	49,238		
12,909	78,501	30,077	-----

	Operating income		
(loss).....	(37,857)	6,388	
(50,366)	18,046	Other (income)	
and expenses: Interest			
income.....	(857)		
(1,248)	(2,940)	(2,753)	Interest
expense.....	179	339	
578	957	-----	-----

	Income (loss) before income		
taxes.....			
(37,179)	7,297	(48,004)	19,842
Provision (benefit) for income			
taxes.....			
(651)	3,332	(2,002)	8,691
-----			-----
	Net income		
(loss)	\$(36,528)		
\$ 3,965	\$(46,002)	\$11,151	
=====	=====	=====	
=====	=====	=====	Net

income (loss) per share:
 Basic..... \$
 (0.79) \$ 0.09 \$ (1.01) \$ 0.31
 Diluted..... \$
 (0.79) \$ 0.08 \$ (1.01) \$ 0.23
 Weighted-average common shares
 outstanding:
 Basic.....
 46,210 43,917 45,698 36,119
 Diluted.....
 46,210 49,987 45,698 48,584
 THE
 ACCOMPANYING NOTES ARE AN
 INTEGRAL PART OF THESE CONDENSED
 CONSOLIDATED FINANCIAL
 STATEMENTS.

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

NINE MONTHS ENDED -----
 SEPTEMBER 29, SEPTEMBER 30, 2001 2000 -----
 - - - - - OPERATING ACTIVITIES Net income
 (loss).....
 \$(46,002) \$11,151 Adjustments to reconcile net
 income (loss) to cash provided by operating
 activities: Depreciation and amortization of
 property, equipment and
 software.....
 5,897 4,634 Amortization of goodwill and other
 intangible assets. 4,580 1,329 Impairment of
 goodwill and other intangible assets... 34,885 --
 Amortization of deferred stock
 compensation..... 3,981 2,451 Amortization of
 note/lease end-of-term interest
 payments.....
 242 242 Compensation expense related to stock
 options, direct stock issuance, and warrants to
 non-
 employees..... --
 153 Changes in operating assets and liabilities:
 Investment interest
 receivable..... 630 (275) Accounts
 receivable..... 2,927
 (5,947)
 Inventories.....
 1,386 (3,556) Prepaid expenses and
 other..... (310) (252) Income
 tax receivable.....
 (1,467) -- Other
 assets..... 40
 (61) Accounts
 payable..... (1,496)
 (1,709) Accrued
 expenses..... 941
 3,806 Deferred
 revenue..... (103)
 1,504 Deferred income
 taxes..... (359) (535)
 Income taxes
 payable..... (912) (47)
 ----- Net cash provided by
 operating activities..... 4,860 12,888
 INVESTING ACTIVITIES Purchases of short-term
 investments..... (43,314) (60,278)
 Maturities of short-term
 investments..... 62,538 23,651
 Purchases of property, equipment and
 software..... (4,122) (13,395) Purchases of
 other assets..... (821)
 (750) Acquisition of business, net of cash
 acquired..... -- (13,285) -----
 ----- Net cash provided by (used in) investing
 activities.... 14,281 (64,057) FINANCING
 ACTIVITIES Proceeds from long-term
 debt..... -- 3,532 Payments
 on long-term debt.....

(1,130)	(5,997)	Payments on capital	
leases.....			(401) (364)
Proceeds from repayment of stockholder			
notes.....	193	-- Proceeds from exercise of	
warrants.....		-- 100 Proceeds from	
Employee Stock Purchase Plan.....	566	--	
Net proceeds from initial public			
offering.....		-- 90,646 Net proceeds from	
exercises of stock options.....	248	1,610	--
-----		Net cash provided by	
(used in) financing activities....	(524)	89,527	--
-----		Increase in cash and	
cash equivalents.....	18,617	38,358	
Cash and cash equivalents at beginning of			
period.....	51,902	8,197	-----
----		Cash and cash equivalents at end of	
period.....	\$ 70,519	\$46,555	=====
=====		SUPPLEMENTAL DISCLOSURE OF CASH FLOW	
		INFORMATION: Interest	
paid.....			\$
332 \$ 706	=====	=====	Income taxes
paid.....		\$ 793	\$
9,170	=====	=====	

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

SILICON LABORATORIES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
SEPTEMBER 29, 2001

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 subsidiaries (collectively, the "Company") at September 29, 2001 and September 30, 2000, the consolidated results of its operations for the three and nine months ended September 29, 2001 and September 30, 2000 and the consolidated statements of cash flows for the nine months ended September 29, 2001 and September 30, 2000. All intercompany accounts and transactions have been eliminated. The results of operations for the three and nine months ended September 29, 2001 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 December 30, 2000, included in the Company's Form 10-K filed with the Securities and Exchange Commission.

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):

SEPTEMBER 29,	
December 30, 2001	
2000	-----

Work in	
progress.....	
\$4,112	\$4,302
Finished	
goods.....	
1,722	2,917
-----	-----

\$5,834	\$7,219

OTHER COMPREHENSIVE INCOME

There were no material differences between net income (loss) and comprehensive income (loss) during any of the periods presented.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) Nos. 141 and 142, BUSINESS COMBINATIONS and GOODWILL AND OTHER INTANGIBLE ASSETS. SFAS No. 141 replaces Accounting Principles Board Opinion (APB) No. 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under SFAS No. 142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired. SFAS No. 141 and SFAS No. 142 are effective for all business combinations completed after June 30, 2001. Upon adoption of SFAS No. 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under SFAS No. 141 will be reclassified to goodwill. Companies are required to adopt SFAS No. 142 for fiscal years beginning after December 15, 2001, but early adoption is permitted. The Company will adopt SFAS No. 142 on December 30, 2001, the beginning of fiscal 2002. In connection with the adoption of SFAS No. 142, the Company will be required to perform a transitional goodwill impairment assessment. The adoption of SFAS No. 141 and SFAS No. 142 will not have a material impact on the Company's results of operations and financial position since the Company's existing balances of goodwill and other intangible assets are not significant due to impairment charges recorded during the quarter ended September 29, 2001 under SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF.

SILICON LABORATORIES INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 (UNAUDITED)

EARNINGS (LOSS) PER SHARE

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

THREE MONTHS ENDED NINE MONTHS ENDED -----		
----- ----- SEPTEMBER 29, SEPTEMBER 30, SEPTEMBER 29, SEPTEMBER 30, 2001 2000 2001 2000 ----- -----		
----- Net income (loss).....		
	\$(36,528)	\$ 3,965
\$(46,002) \$11,151 Basic: weighted-average shares of common stock outstanding.....		
	48,455	47,496
	42,162	48,375
Weighted-average shares of common stock subject to repurchase.....		
	(2,245)	(3,579)
	(6,043)	(2,677)
----- ----- Shares used in computing basic net income (loss) per share.....		

December 30, 2000..	\$309	\$922
	\$863	\$104 \$37,488 \$39,686
Amortization.....		
	(156)	(101) (106) (30)
(4,187) (4,580) Write-down of		
assets.....	(6)	(821)
(757) -- (33,301) (34,885) --		

----- Net		
balance at September 29,		
2001.....		
\$147 \$ -- \$ -- \$ 74 \$ -- \$		
221 =====		
=====		
=====		

The Company, as part of its review of financial results for the three months ended September 29, 2001, performed an assessment of the carrying value of the Company's long-lived assets to be held and used including significant amounts of goodwill and other intangible assets recorded in connection with our acquisitions of Krypton Isolation, Inc. "Krypton" and SNR Semiconductor, Inc. "SNR". The assessment was performed pursuant to Statement Financial Accounting Standards No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF because of the recent appearance of several impairment indicators:

- The revenue stream associated with the Krypton business has decreased significantly since the acquisition;
- Krypton customers have effectively stopped purchasing Krypton products;
- The Krypton office was closed in August of 2001 and most of the workforce is no longer employed by the Company;
- The Company determined that further development or alternative uses of the acquired technologies were remote; and
- The Company does not expect to have any significant future cash flows related to these acquired assets.

The conclusion of that assessment was that the acquired assets were permanently impaired. As a result, the Company recorded a charge of \$33.3 million and \$1.6 million to reduce goodwill and other intangible assets, respectively, based on the amount by which the carrying amount of the assets exceeded their fair market value. Fair value was determined based on discounted future cash flows for assets that had separately identifiable cash flows.

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

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE CONDENSED 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/A FILED JULY 24, 2001, THE PRIOR QUARTERLY REPORT ON FORM 10-Q FILED APRIL 24, 2001 AND OUR ANNUAL REPORT ON FORM 10-K FILED JANUARY 22, 2001. 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' PRIOR QUARTERLY REPORT ON FORM 10-Q/A FILED JULY 24, 2001, THE PRIOR QUARTERLY REPORT ON FORM 10-Q FILED APRIL 24, 2001 AND OUR ANNUAL REPORT ON FORM 10-K FILED JANUARY 22, 2001. OUR FISCAL YEAR-END FINANCIAL REPORTING PERIODS ARE A 52- OR 53- WEEK YEAR ENDING ON THE SATURDAY CLOSEST TO DECEMBER 31ST.

OUR THIRD QUARTER OF FISCAL YEAR 2001 ENDED SEPTEMBER 29, 2001. OUR THIRD QUARTER OF FISCAL YEAR 2000 ENDED SEPTEMBER 30, 2000. ALL OF THE QUARTERLY PERIODS REPORTED IN THIS QUARTERLY REPORT ON FORM 10-Q HAD THIRTEEN WEEKS.

OVERVIEW

We design and develop proprietary, analog-intensive, mixed-signal integrated circuits, or ICs, for the 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 wireless phones, as well as cable and satellite set-top boxes, residential communication gateways for cable or DSL, cable modems and optical networking equipment. Customers during fiscal 2000 included 3Com, Agere Systems (formerly the Lucent Microelectronics business), Motorola, PC-TEL, and Smart Link.

Our company was founded in 1996. Our business has grown rapidly since our inception, as reflected by our employee headcount, which increased to 270 employees at September 29, 2001, from 256 at the end of fiscal 2000, 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 company is organized into three principal product areas, the Wireline Products Division, the Wireless Products Division, and the Optical Networking Division. Our Wireline Products Division commenced research and development for our first IC product, the direct access arrangement, or DAA, in October 1996. We introduced our DAA product in the first quarter of fiscal 1998, and first received acceptance of this product for inclusion in a customer's device, which we refer to as a "design win", in March 1998. The first commercial shipment of our DAA product was made in April 1998. A majority 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. In recent periods, we have expanded our product lines. For example, the Wireline Products Division has introduced our ISModem product providing a complete embedded modem solution for fast connection, low speed applications and our ProSLIC product providing the telephone features at the source end of the telephone for subscriber line interfaces in voice-over-digital network applications. Our Wireless Products Division has introduced RF synthesizer products serving GSM mobile telephone applications, wideband CDMA applications and wireless local area network opportunities. In addition, this Division introduced a GSM transceiver product to address GSM mobile telephone applications. Our Optical Networking Products Division introduced a family of products suitable for SONET physical layer applications. We expect to be less dependent on our DAA products for future sales to the extent that these products, or other products that we may introduce, are incorporated into devices sold by our customers.

Since our inception, a few customers have accounted for a substantial portion of our revenues. During fiscal 2000, PC-TEL accounted for 46% of our revenues. No other customer accounted for more than 10% of our revenues in fiscal 2000. To date, a majority 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 revenues from these representatives and distributors will increase as a percentage of our total revenues 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.

During the first half of fiscal 2001, many personal computer manufacturers announced cutbacks in their sales forecasts due to rapid deterioration in industry-wide demand, resulting in a major inventory correction. This downturn had a significant negative impact on our results for the three and nine months ended September 29, 2001. We believe that this decrease in demand will also have a sizable impact on our results from operations, particularly within our Wireline Products Division, for the year ending December 29, 2001 and creates significant uncertainty in our business planning for the remainder of the year.

The percentage of our revenues derived from customers located outside of the United States was 67% in the nine months ended September 29, 2001, 21% in fiscal 2000, 7% in fiscal 1999 and was insignificant in fiscal 1998. All of our revenues to date have been denominated in U.S. dollars. We believe that the percentage of our revenues derived from customers outside of the United States will continue to increase as our products receive greater acceptance in international markets.

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. We expect this sales cycle to lengthen as our customers experience a decrease in

demand for their products due to the ongoing economic downturn that is particularly affecting technology companies. 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 revenues, 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 revenues 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 wireless 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.

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

REVENUES. Revenues are generated principally by sales of our ICs. We recognize revenue upon the transfer of title, which generally occurs upon shipment to our customers. Revenues are deferred on shipments to distributors until they are resold by such distributors. Our products typically carry a one-year replacement warranty. Our revenues 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 revenues were negotiated 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 due to the greater availability of competing products. Therefore, our ability to increase revenues in the future is dependent on increased demand for our established products and our ability to ship larger volumes of those products in response to such demand, as well as customer acceptance of newly introduced products.

COST OF REVENUES. Cost of revenues 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 and leasehold improvements. Generally, we depreciate equipment over four years on a straight line basis. We also depreciate our leasehold improvements over the shorter of the estimated useful life or the applicable lease term. Recently introduced products tend to have higher cost of revenues 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.

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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 design of new products and creation of test methodologies to assure compliance with required specifications.

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, directors and officers liability insurance, other promotional and marketing expenses and reserves for bad debt. Write offs of uncollectible accounts have been insignificant to date.

WRITE OFF OF IN-PROCESS RESEARCH & DEVELOPMENT. Write off of in-process research & development reflects the write off of in-process research and development costs acquired in connection with our acquisition of Krypton.

GOODWILL AMORTIZATION. Goodwill amortization includes the amortization of

goodwill purchased in connection with our acquisitions of Krypton and SNR. Goodwill is amortized over four to five years using the straight line method.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS. Impairment of goodwill and other intangible assets reflects the charge to write-down that portion of the carrying value of goodwill and other intangible assets that is in excess of their fair market value.

AMORTIZATION OF DEFERRED STOCK COMPENSATION. In connection with the grant of stock options and direct issuances of stock to our employees, we recorded deferred stock compensation, representing, for accounting purposes, 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. 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, cash equivalents and investment balances.

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

PROVISION (BENEFIT) FOR INCOME TAXES. We accrue a provision (benefit) for federal and state income tax at the applicable statutory rates.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED NINE			
	MONTHS ENDED -----			
	----- SEPTEMBER			
	29,	SEPTEMBER 30,	SEPTEMBER	
	29,	SEPTEMBER 30,	2001	2000
	2001	2000	-----	---
	-----	---	-----	---
Revenues.....	100.0%	100.0%	100.0%	100.0%
Cost of				
revenues.....	42.7			
34.4	44.2	34.4	-----	
--	-----			
--	-----			
Gross				
profit.....	57.3			
65.6	55.8	65.6	Operating	
expenses: Research and				
development..	38.7	17.9		
42.2	18.1	Selling, general		
and				
administrative.....				
27.1	17.4	27.9	17.3	Write
off of in-process research				
& development..	--	1.3	--	
0.5	Goodwill			
amortization.....	--	4.2		
8.3	1.7	Impairment of		
goodwill and other				
intangible assets.	175.4	--		
69.1	--	Amortization of		
deferred stock				
compensation.....	6.5	3.0		
7.9	3.3	-----	-----	

Operating				
expenses.....	247.7			
43.9	155.4	41.0	Operating	
income (loss).....	(190.4)			
21.7	(99.6)	24.6	Other	
(income) and expenses:				
Interest income.....				
(4.5)	(4.2)	(5.7)	(3.8)	

Interest expense.....	1.0	1.2	1.2	1.3	-----
-----					-----
-----					-----
Income					
(loss) before income	(186.9)	24.8	(95.1)	27.0	
taxes.....					
Provision (benefit) for					
income taxes.....	(3.5)	11.3	(4.0)	11.8	-----
-----					-----
-----					-----
Net					
income (loss)	(183.4)%	13.5%	(91.1)%		
	15.2%				=====
=====					=====
=====					=====

COMPARISON OF THE THREE AND NINE MONTHS ENDED SEPTEMBER 29, 2001 TO THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2000.

REVENUES. Revenues for the quarter ended September 29, 2001 were \$19.9 million, a decrease of \$9.5 million or 32.3% from revenues of \$29.4 million in the quarter ended September 30, 2000. Revenues for the nine months ended September 29, 2001 were \$50.5 million, a decrease of \$22.9 million or 31.2% from revenues of \$73.4 million in the nine months ended September 30, 2000. The decreases were primarily due to a decline in the sales volume of our DAA family of products reflecting the rapid deterioration in demand within the personal computer industry. Revenues from non-DAA products, such as the ISModem, the ProSLIC, the RF Synthesizer and our optical networking products, accounted for approximately 42.8% of revenues for the quarter ended September 29, 2001 as compared to 15% of revenues for the quarter ended September 30, 2000.

GROSS PROFIT. Gross profit for the quarter ended September 29, 2001 was \$11.4 million or 57.3% of revenues, a decrease of \$7.9 million or 40.9% as compared with gross profit of \$19.3 million or 65.6% of revenues in the quarter ended September 30, 2000. Gross profit for the nine months ended September 29, 2001 was \$28.1 million or 55.8% of revenues, a decrease of \$20.0 million or 41.6% as compared with gross profit of \$48.1 million or 65.6% of revenues in the nine months ended September 30, 2000. The decreases in gross profit were primarily due to the substantial decrease in sales volume, decreased utilization of our testing capacity and reserves for excess inventory due to demand fluctuations for our products. With respect to the nine months ended September 29, 2001, these negative influences on gross profit were partially offset by a vendor credit received during the quarter ended March 31, 2001 for yield variations outside processing parameters. The future direction of gross margins is uncertain due to many factors such as the severity and duration of the personal computer industry downturn, our ability to sell existing inventory on hand, our ability to successfully introduce to market and sell new products, the selling prices for existing and new products, the extent to which our competitors introduce new products to market, and future product cost considerations with our vendors.

RESEARCH AND DEVELOPMENT. Research and development expense for the quarter ended September 29, 2001 was \$7.7 million or 38.7% of revenues, which reflected an increase of \$2.4 million or 45.3% as compared with research and development expense of \$5.3 million or 17.9% of revenues for the quarter ended September 30, 2000. Research and development expense for the nine months ended September 29, 2001 was \$21.3 million or 42.2% of revenues, which reflected an increase of \$8.0 million or 60.2% as compared with research and development expense of \$13.3 million or 18.1% of revenues for the nine months ended September 30, 2000. The increases in the dollar amount of research and development expense were principally due to continued product development activities, significant increases in new product development initiatives in wireless and optical networking opportunities, usage of more expensive advanced silicon CMOS processes, and increased spending to develop test methodologies for new products. As a percentage of revenues, research and development expense increased significantly due to the substantial decrease in sales volume for the three and nine months ended September 29, 2001. We expect that research and development expense will continue to increase in absolute dollars in future periods as we develop new ICs, and may fluctuate as a percentage of revenues due to changes in sales volume and new product development initiatives.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative

expense for the quarter ended September 29, 2001 was \$5.4 million or 27.1% of revenues, which reflected an increase of \$0.3 million or 5.9% as compared to selling, general and administrative expense of \$5.1 million or 17.4% of revenues in the quarter ended September 30, 2000. Selling, general and administrative expense for the nine months ended September 29, 2001 was \$14.2 million or 27.9% of revenues, which reflected an increase of \$1.5 million or 11.8% as compared to selling, general and administrative expense of \$12.7 million or 17.3% of revenues in the nine months ended September 30, 2000. The increases in the dollar amount of selling, general and administrative expense were principally attributable to increased staffing, but were partially offset by a decrease in spending on patent litigation fees. We expect our legal expenses to increase as a result of the infringement lawsuit filed against us by TDK Semiconductor Corporation in August 2001. 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. In addition, we expect selling, general and administrative expense to fluctuate as a percentage of revenues because of (1) the likelihood that indirect distribution channels, which entail the payment of commissions, will account for a larger portion of our revenues 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.

WRITE OFF OF IN-PROCESS RESEARCH & DEVELOPMENT. There was no write off of in-process research & development during the three and nine months ended September 29, 2001. Write off of in-process research & development for the three and nine months ended September 30, 2000 was \$0.4 million as a result of the acquisition of Krypton.

GOODWILL AMORTIZATION. Goodwill amortization for the three and nine months ended September 29, 2001 was \$0.0 million and \$4.2 million, respectively, compared to \$1.2 million and \$1.2 million for the three and nine months ended September 30, 2000, respectively. During the quarter ending September 29, 2001 we recorded a charge to reduce the carrying value of goodwill (See **IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS** below).

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS. We performed an assessment of the carrying value of the Company's long-lived assets to be held and used including significant amounts of goodwill and other intangible assets recorded in connection with our acquisitions of Krypton and SNR during the year 2000. As a result, we determined that substantially all of the acquired goodwill and other intangible assets were impaired. We recorded a charge of \$33.3 million to write off goodwill and a charge of \$1.6 million to reduce the value of other intangible assets, based on the amount by which the carrying amount of these assets exceeded their fair market value.

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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 \$1.3 million and \$4.0 million for the three and nine months ended September 29, 2001, respectively, as compared to \$0.9 million and \$2.5 million for the three and nine months ended September 30, 2000, respectively. The increases in the dollar amount of amortization of deferred stock compensation were due to additional deferred stock compensation for options and restricted stock issued subsequent to the first quarter of fiscal 2000.

INTEREST INCOME. Interest income for the quarter ended September 29, 2001 was \$0.9 million as compared to \$1.2 million for the quarter ended September 30, 2000. This decrease was primarily due to lower interest rates and lower cash and short-term investments balances during the quarter ended September 29, 2001. Interest income for the nine months ended September 29, 2001 was \$2.9 million as compared to \$2.8 million for the nine months ended September 30, 2000.

INTEREST EXPENSE. Interest expense for the three and nine months ended September 29, 2001 was \$0.2 million and \$0.6 million, respectively, as compared to \$0.3 million and \$1.0 million for the three and nine months ended September 30, 2000, respectively. The decreases in interest expense were primarily due to lower levels of debt during the recent quarter and nine month period.

PROVISION (BENEFIT) FOR INCOME TAXES. Our effective tax rate, excluding the impact of non-deductible write off of in-process research and development, amortization of goodwill, impairment of goodwill and other intangible assets and

deferred stock compensation, was a benefit of 40.5% in the nine months ended September 29, 2001, as compared to our effective tax expense provision rate of 36.3% in the nine months ended September 30, 2000. The current period's tax benefit rate was higher than the prior comparable period's tax expense provision rate primarily due to the current period's increased tax benefit from the estimated research and development tax credit in proportion to the amount of the current period's pre-tax loss.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity as of September 29, 2001 consisted of \$95.2 million in cash, cash equivalents and short-term investments in addition to 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 \$5.0 million or 80% of eligible accounts receivable at the bank's prime lending rate. At September 29, 2001, a letter of credit for \$0.4 million related to a building lease was outstanding under the revolving line of credit and \$4.6 million was available for new borrowings based on the 80% of eligible accounts receivable limitation.

We also have entered into agreements with three institutional lenders for equipment financing to purchase or lease equipment, leasehold improvements and software. At September 29, 2001, the amount outstanding under these agreements was \$3.9 million. This indebtedness bears effective interest rates (including end-of-term interest payments of \$1.3 million) ranging from 12.5% to 14.6% per annum, is secured by certain equipment, and is repayable over approximately the next three years.

During the nine months ended September 29, 2001, cash provided by operating activities was \$4.9 million as compared to cash provided by operating activities of \$12.9 million during the nine months ended September 30, 2000. This reduction in cash flow was primarily due to the significant reduction in sales revenues during the period.

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 with net 30 day payment terms or other specific terms and conditions that may vary from account to account as individually negotiated with customers. As of September 29, 2001, we had an accounts receivable balance of \$10.7 million. If sales levels were to increase, it is likely that the level of

receivables would also increase. In the event that customers delay their payments to us, the levels of accounts receivable would also increase. In the area of inventory, we believe that in order to maintain an adequate supply of product for our 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, customer demands for consignment inventory arrangements, and competitive situations in the marketplace. Such considerations are balanced against risk of obsolescence or potentially excess inventory levels. The fluctuations in demand for our products caused us to establish reserves for excess inventory levels during each quarter of 2001. As of September 29, 2001, we had net inventory of \$5.8 million which we deemed adequate to address these inventory considerations.

Capital expenditures decreased by \$9.2 million to \$4.9 million for the nine months ended September 29, 2001 from \$14.1 million for the nine months ended September 30, 2000. This decrease in the dollar amount of capital expenditures was primarily due to the completion of our internal test floor for existing products in fiscal 2000 and spending controls implemented during fiscal 2001. The expenditures in the recent nine months were incurred to purchase semiconductor test equipment for new products, design software and engineering tools, other computer equipment, leasehold improvements and software to support our business capabilities. We anticipate capital expenditures of approximately \$6.5 million for fiscal 2001 primarily to fund additional test floor operations capabilities for wireless and optical networking products and expand engineering new 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. We believe our existing cash balances and credit facilities 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 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

In June 1998, the FASB issued SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income. The adoption of SFAS No. 133 as amended by SFAS No. 138, ACCOUNTING FOR CERTAIN INSTRUMENTS AND CERTAIN HEDGING ACTIVITIES, did not have a material impact on our financial statements since we do not utilize derivative instruments.

In July 2001, the FASB issued SFAS Nos. 141 and 142, BUSINESS COMBINATIONS and GOODWILL AND OTHER INTANGIBLE ASSETS. SFAS No. 141 replaces APB No. 16 and eliminates pooling-of-interests accounting prospectively. It also provides guidance on purchase accounting related to the recognition of intangible assets and accounting for negative goodwill. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under SFAS No. 142, goodwill will be tested annually and whenever events or circumstances occur indicating that goodwill might be impaired. SFAS No. 141 and SFAS No. 142 are effective for all business combinations completed after June 30, 2001. Upon adoption of SFAS No. 142, amortization of goodwill recorded for business combinations consummated prior to July 1, 2001 will cease, and intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under SFAS No. 141 will be reclassified to goodwill. Companies are required to adopt SFAS No. 142 for fiscal years beginning after December 15, 2001, but early adoption is permitted. The Company will adopt SFAS No. 142 on December 30, 2001, the beginning of fiscal 2002. In connection with the adoption of SFAS No. 142, the Company will be required to perform a transitional goodwill impairment assessment. The adoption of SFAS No. 141 and SFAS No. 142 will not have a material impact on the Company's results of operations and financial position since the Company's existing balances of goodwill and other intangible assets are not significant due to impairment charges recorded during the quarter ended September 29, 2001 under SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF.

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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.

FACTORS AFFECTING OUR FUTURE OPERATING RESULTS

RISKS RELATED TO OUR BUSINESS

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

Our future success will depend on our ability to reduce our dependence on our DAA products by developing new integrated circuits, or 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, wireless and optical networking 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 introduced to market or are in development of many new ICs including:

- an Aero™ GSM transceiver chipset, providing a highly integrated radio communication section of a GSM wireless handset with versatile interfaces to other electronic sections of the handset;
- a family of RF synthesizers, which are used to generate high frequency signals that are used in wireless communications systems to select a particular radio channel;

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- an ISModem, 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;
- a higher speed ISModem product to serve additional embedded modem markets demanding faster transmission requirements such as next generation set-top boxes;
- a family of ProSLIC products, which provides dial tone, busy tone, caller ID and ring signal functions at the source end of the telephone addressing long-haul and short-haul applications;
- a family of optical networking products, which feature highly integrated physical layer and clock circuits designed for SONET/ATM routers, multiplexers, digital cross connects and optical transceiver modules; and
- a Digital Subscriber Line, or DSL, Analog Front End providing a highly integrated interface for DSL modems with legacy support for traditional analog phone line functionality.

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.

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

In fiscal 2000, PC-TEL accounted for 46% of our revenues. The markets for our products are dominated by a small number of potential customers. Our operating results in the foreseeable future will continue to depend on sales to a relatively small number of dominant customers, as well as the ability of these customers to sell products that use our 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 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.

Our largest customer, PC-TEL, has reported significantly fluctuating revenues in recent periods. If PC-TEL's revenues continue to decline or remain at reduced levels, we believe that our results of operations, particularly in the Wireline Products Division, will be significantly and adversely affected.

While we have been the sole supplier of the direct access arrangement, or DAA, IC used in PC-TEL's soft modem DAA products, we anticipate that PC-TEL will regularly evaluate alternative sources of supply 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. 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 2001. 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 revenues and operating results.

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

WE HAVE DEPENDED ON OUR DAA FAMILY OF PRODUCTS FOR A SIGNIFICANT MAJORITY OF OUR REVENUES TO DATE, AND SUBSTANTIAL REDUCTIONS IN ORDERS FOR DAA PRODUCTS WOULD SIGNIFICANTLY REDUCE OUR REVENUES

A majority of our sales to date have been derived from sales of our DAA family of ICs. This product family, in turn, is highly dependent on sales to the personal computer industry which currently faces deteriorating levels of demand. Until we are able to diversify our sales through the introduction and commercial acceptance of new products, we will continue to rely on sales of our DAA products. A continuing decline in overall demand for personal computers, 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. On August 7, 2001 TDK Semiconductor Corporation filed suit against us alleging that certain of our DAA products infringe a TDK-held patent. We have filed a response denying such infringement. If our DAA products are found to infringe TDK's patent, our business operating results and financial condition could be substantially adversely affected.

During the first nine months of fiscal 2001, we experienced a significant reduction in orders for our DAA family of products as a result of deteriorating demand for personal computers. Our revenues for the first nine months of fiscal 2001 declined sequentially from the nine month period ended December 31, 2000 by 39.5%, which resulted in a significant reduction in gross profits, lower gross margins and net losses for the most recent nine month period.

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

We may experience significant period-to-period fluctuations in our revenues 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 revenues and operating results, including:

- the timing and volume of orders received 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 time lag between "design wins" and production orders;
- 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.

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Due to the terrorist attacks of September 11, 2001 and subsequent world events, the end demand for consumer-oriented products such as personal computers and mobile wireless handsets may encounter a sharp and prolonged reduction in demand. The supply chain for these consumer-oriented products was facing weak consumer demand, excess inventory, low factory utilization rates, a pattern of slower upgrade cycles for personal computers, delay of next generation of mobile handset technology and overall sluggishness even before the events of September 11, 2001. The combination of the then existing business conditions and the loss of consumer confidence driven by the events of September 11, 2001 may result in a sharp deterioration in demand for our semiconductor component products which could unfavorably impact our revenues, operating results and stock price.

The mobile telephone market is characterized by rapid fluctuations in demand which results in corresponding fluctuations in the demand for our wireless products that are incorporated in mobile telephones. 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 can quickly accelerate and demand can quickly decline for the product that the new IC replaces.

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 revenues until the second quarter of 1998. As a result, we have only a short history from which to predict future revenues. 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 revenues. Additionally, because most of our expenses are fixed in the short term or incurred in advance of anticipated revenues, we may not be able to decrease our expenses in a timely manner to offset any shortfall of revenues. During fiscal 2000, we expanded our staffing and increased our expense levels in anticipation of future sales growth. If our sales do not increase, we expect to incur significant losses due to our higher expense levels.

WE DEPEND ON OUR CUSTOMERS TO SUPPORT OUR PRODUCTS

Our products are currently used by our customers to produce modems for personal computers, mobile telephones and other wireless devices, and optical networking equipment. We rely on our customers to provide hardware, software, intellectual property indemnification and other technical support for the devices that use our products. If our customers do not provide the required functionality or if our customers do not provide satisfactory support for their products, the demand for these devices that incorporate our products may diminish. Any reduction in the demand for these devices would significantly reduce our revenues.

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 principally 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 minor 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;

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- limited warranties on wafers or products supplied to us;
- potential increases in prices; and
- their inability to supply or support new or changing packaging technologies.

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 nine 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 do not accurately 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 the first nine months of fiscal 2001, substantially all of the silicon wafers for the products that we shipped were manufactured either by Taiwan Semiconductor Manufacturing Co. or Vanguard International Semiconductor, an affiliate of Taiwan Semiconductor Manufacturing Co. Our customers typically complete their own qualification process. 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 or excess 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 deliver fabricated silicon wafers of satisfactory quality in a timely manner, we will be unable to meet our customers' demand for our products in a timely manner, 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. Acquisitions that we may potentially make in the future 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;

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- o risks associated with entering markets in which we lack prior experience; and
- o potential loss of key employees of the acquired company.

OUR CURRENT MANUFACTURERS, ASSEMBLERS AND CUSTOMERS 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 OR SALES

Our current semiconductor manufacturers are located in the same region within Taiwan and our assembly contractors are located in the Pacific Rim region. In addition, many of our customers, particularly mobile telephone manufacturers, 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. 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. In addition, a natural disaster, labor strike, war or political unrest where our customers' facilities are located would likely reduce our sales to such customers.

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 HISTORICAL GROWTH RATE

Although we have experienced revenue and earnings growth in prior annual periods, we may not be able to sustain these growth rates. For the nine month period ended September 29, 2001, we reported a sequential decline of our overall revenues from the nine month period ended December 30, 2000 by 39.5% which resulted in a significant reduction in gross profits, lower gross margin percentage and a net loss for the recent nine month period. In particular, we may gain significant market share in a relatively short period of time following the introduction of a new product, resulting in revenue growth. However, incremental gains in market share for these newly introduced products may not occur. Additionally, the time lag by a customer from purchase of initial orders of our product to follow on production volume orders may extend several quarterly periods. Accordingly, you should not rely on the results of any prior quarterly or annual periods as an indication of our future operating performance.

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

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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 in 1998 led to the creation of Conexant which is a significant competitor. Additionally, Siemens spun off its semiconductor business in 1999 to create a more focused company named Infineon Technologies. In July 2000, Lucent Technologies spun off its microelectronics business, which included its optoelectronics components and integrated circuits division, into a separate company named Agere Systems in order to accelerate the growth of the business and alleviate strategic conflicts with Lucent's competitors. 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, sales and marketing personnel. Specifically, we believe that our future success is highly dependent on Navdeep Sookh, our co-founder, Chief Executive Officer and Chairman of the Board, Daniel Artusi, our Chief Operating Officer, Jeffrey Scott, our co-founder and Vice President of Engineering, and David Welland, our co-founder and Vice President of Technology. 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, wireless and optical networking 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 nine months of fiscal 2001, our research and development expense was \$21.3 million, which represented 42.2% of our revenues compared to \$13.3 million, or 18.1% of our revenues for the first nine months of fiscal 2000. A number of large companies in the wireline, wireless and optical networking 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 wireless phones operating on the Global System for Mobile Communications, or GSM, standard. The RF synthesizer is also compatible with General Packet Radio Service standard, which is the emerging data communications protocol for GSM based wireless phones. We cannot be certain whether these standards will not change, thereby making our products unsuitable or impractical. In the area of optical networking, our recently introduced clock and data recovery integrated circuit operates within stringent specifications for high speed communications systems known as SONET. Changes to this standard could make our products uncompetitive or unsuitable to changing system requirements and result in our inability to sell these products.

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 REVENUES

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 REVENUES

Although our DAA 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.

We have a large installed base of direct access arrangement products in the field. As part of our ongoing support of this product line, we verify the performance of our products through regulatory agency qualifications, customer acceptance procedures, evaluation of end customer technical support information, and analysis of field returns. Certain customer modem implementations of our direct access arrangement products have been identified to be susceptible to a particular class of electrical surges originating from lightning strikes that are not adequately described in regulatory agency qualifications. We have provided application guidelines to our customers to enhance their implementation of the modem function to protect our devices from these lightning strike electrical surges.

Damage from these electrical surges could result in product liability claims against our customers that produce these modems or against us. Our customers may seek indemnification or other compensation from us with respect to any liability that they incur. Even if our DAA product is not the source of the problem and we are not contractually liable for such indemnification, we may incur costs in an effort to maintain good relations with our customers. If we are held liable for these claims or incur other costs in order to maintain good relations, this problem could adversely affect our operating results.

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

In fiscal 2001 to date, substantially all of our test operations were performed in-house. A minor portion of test operations is provided by our contract manufacturers or other third parties. While we expect that performing 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 foregoing the use of outside vendors and utilizing 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 additional 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:

- o increased complexity and costs of managing international operations;
- o protectionist laws and business practices that favor local competition in some countries;
- o multiple, conflicting and changing laws, regulations and tax schemes;
- o longer sales cycles;
- o greater difficulty in accounts receivable collection and longer collection periods;
- o high levels of distributor inventory subject to rights of return to us; and
- o 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

In recent periods, we have significantly increased the scope of our operations and expanded our workforce from 42 employees at January 2, 1999 to 270 employees at September 29, 2001. 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 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 misappropriation of 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 have been involved in litigation to protect our intellectual property rights in the past and may become involved in such litigation again in the future. We are currently involved in litigation to defend allegations of infringement asserted by TDK Semiconductor Corporation. See Part II, Item 1. Legal Proceedings. In the future, we may become involved in litigation 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:

- o cease selling products that use the challenged intellectual property;
- o 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
- o redesign those products that use infringing intellectual property.

On August 7, 2001, TDK Semiconductor Corporation commenced a lawsuit against the Company for alleged willful infringement by our DAA products of a TDK-held patent. TDK's complaint seeks unspecified treble damages, costs and attorneys' fees, and an injunction. On September 27, 2001, we served and filed an answer to their complaint, in which we denied infringement and asserted that their patent is invalid. This lawsuit may involve significant expense and may also divert our management's time and attention from other aspects of our business. Due to the inherent uncertainties of litigation, we are unable to predict the outcome of this matter.

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

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. The industry is currently experiencing a significant downturn driven by the wide and rapid deterioration in PC demand, a reduction in the expected unit sales of wireless phones from previous robust forecasts, and forecasts of excess capacity in the fiber optic networks. This downturn has resulted in a material adverse effect on our business and operating results. The severity and duration of these industry-wide trends are currently unclear and the material adverse effect on our business may continue in the future.

Due to the cyclical nature of the semiconductor industry, any upturn in business 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. Except for non-contractual assurances of support for specifically identified customer accounts, none of our third-party foundry or assembly contractors have provided assurances that adequate capacity will be available to us.

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 optical networking communications markets, we face competition from a relatively large number of competitors. Across all of our product areas, we compete with Agere Systems (formerly the Lucent Microelectronics business), AMCC, Analog Devices, Broadcom, Conexant, CP Clare, Delta Integration, ESS, Fujitsu, Infineon Technologies, Legerity (formerly the Advanced Micro Devices telecom division), Maxim Integrated Products, National Semiconductor, Philips, Texas Instruments, Vitesse Semiconductor Corp, and 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 Agere Systems, Intel, Motorola, and Texas Instruments, 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.

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

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. Our customers may use their current excess inventory situation to negotiate lower prices 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 revenues 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 revenues 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.

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.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On August 7, 2001, TDK Semiconductor Corporation commenced a lawsuit in the United States District Court for the Central District of California against the Company for alleged infringement by the Company of TDK's United States Patent No. 5,654,984. TDK's complaint asserts that we have infringed their '984 patent by making, using and selling in the United States certain DAA semiconductor chipsets, including our Si3035 and Si3044 products, and that the infringement was and continues to be willful. Their complaint seeks unspecified treble damages, costs and attorneys' fees, and an injunction.

On September 27, 2001, we served and filed an answer to their complaint, in which we denied infringement and asserted that TDK's '984 patent is invalid.

For a description of risks associated with this pending lawsuit, please see "Risk Factors--Significant litigation over intellectual property in our industry may cause the Company to become involved in costly and lengthy litigation which could seriously harm our business."

We are not currently involved in any other material legal proceedings.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

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 shares 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 \$90.6 million, after deducting underwriting commissions of \$6.9 million and offering expenses of \$1.6 million. We used \$15 million of the proceeds as part of the consideration paid in the acquisition of Krypton on August 9, 2000. Another \$4.3 million was used to pay off equipment loans provided by Imperial Bank. We used another \$1.0 million of the proceeds as part of the consideration paid in the acquisition of SNR on October 2, 2000. As of September 29, 2001, the remaining 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 exhibits are filed as part of this report:

EXHIBIT
NUMBER -----
-- 3.1* Form
of Fourth
Amended and
Restated
Certificate
of
Incorporation
of Silicon
Laboratories
Inc. filed
as Exhibit
3.1 to the
Registrant's
Registration
Statement on
Form S-1
(SEC File
No. 333-
94853 (the
"IPO
Registration
Statement")).
3.2* Form of
Amended and
Restated
Bylaws of
Silicon
Laboratories
Inc. (filed
as Exhibit
3.2 to the
IPO
Registration
Statement).

NUMBER ----

--- 4.1*

Specimen
certificate
for shares
of common
stock
(filed as
Exhibit 4.1
to the IPO
Registration
Statement).

10.1 Master
Revolving
Note dated
September
5, 2001 by
and between
Silicon
Laboratories
Inc. and
Comerica
Bank-Texas.

10.2 Letter
of Credit
Agreement
dated
September
5, 2001 by
and between
Silicon
Laboratories
Inc. and
Comerica
Bank-Texas.

10.3
Security
Agreement
dated
September
5, 2001 by
and between
Silicon
Laboratories
Inc. and
Comerica
Bank-Texas.

10.4
Advance
Formula
Agreement
dated
September
5, 2001 by
and between
Silicon
Laboratories
Inc. and
Comerica
Bank-Texas.

* Incorporated herein by reference to the indicated filing.

(b) During the quarter ended September 29, 2001, we filed the following
Current Reports on Form 8-K:

Not applicable

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

October 22, 2001

Date

/s/ NAVDEEP S. SOOCH

Navdeep S. Sooch
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER
(PRINCIPAL EXECUTIVE OFFICER)

October 22, 2001

Date

/s/ JOHN W. MCGOVERN

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

MASTER REVOLVING NOTE

[COMERICA LOGO] Variable Rate-Maturity Date-Obligatory Advances
(Business and Commercial Loans Only)

Amount Note
Date Maturity
Date Tax
Identification
Number
\$5,000,000
September 5,
2001
September 5,
2003

On the Maturity Date, as stated above, for value received, the undersigned promise(s) to pay to the order of Comerica Bank-Texas ("Bank"), at any office of the Bank in the State of Texas, Five Million Dollars (U.S.) (or that portion of it advanced by the Bank and not repaid as later provided) with interest until maturity, whether by acceleration or otherwise, or until Default, as later defined, at a per annum rate equal to the lesser of (a) the Maximum Rate, as later defined, or (b) the Stated Rate, as later defined and after that at a rate equal to the rate of interest otherwise prevailing under this Note plus three percent (3%) per annum (but in no event in excess of the Maximum Rate.) If on any day the Stated Rate shall exceed the Maximum Rate for that day, the rate of interest applicable to this Note shall be fixed at the Maximum Rate on that day and on each day thereafter until the total amount of interest accrued on the unpaid principal balance of this Note equals the total amount of interest which would have accrued if there had been no Maximum Rate. Interest rate changes will be effective for interest computation purposes as and when the Maximum Rate or the Stated Rate, as applicable, changes. Subject to the limitations hereinbelow set forth, interest shall be calculated on the basis of a 360-day year for the actual number of days the principal is outstanding. The "Stated Rate" shall mean the Bank's "prime rate" which is the annual rate of interest so designated by the Bank and which is changed by the Bank from time to time. Accrued interest on this Note shall be payable on the first day of each calendar month commencing October 1, 2001, until the Maturity Date (set forth above) when all amounts outstanding under this Note shall be due and payable in full. If the frequency of interest payments is not otherwise specified, accrued interest on this Note shall be payable monthly on the first day of each month. If any payment of principal or interest under this Note shall be payable on a day other than a day on which the Bank is open for business, this payment shall be extended to the next succeeding business day and interest shall be payable at the rate specified in this Note during this extension. A late payment charge equal to a reasonable amount not to exceed 5% of each late payment may be charged on any payment not received by the Bank within 10 calendar days after the payment due date, but acceptance of payment of this charge shall not waive any Default under this Note.

The term "Maximum Rate", as used herein, shall mean at the particular time in question the maximum nonusurious rate of interest which, under applicable law, may then be charged on this Note. If such maximum rate of interest changes after the date hereof, the Maximum Rate shall be automatically increased or decreased, as the case may be, without notice to the undersigned from time to time as of the effective date of each change in such maximum rate.

The principal amount payable under this Note shall be the sum of all advances made by the Bank to or at the request of the undersigned, less principal payments actually received in cash by the Bank. The books and records of the Bank shall be the best evidence of the principal amount and the unpaid interest amount owing at any time under this Note and shall be conclusive absent manifest error. No interest shall accrue under this Note until the date of the first advance made by the Bank; after that interest on all advances shall accrue and be computed on the principal balance outstanding from time to time under this Note until the same is paid in full.

This Note and any other indebtedness and liabilities of any kind of the undersigned (or any of them) to the Bank, and any and all modifications, renewals or extensions of it, whether joint or several, contingent or absolute, now existing or later arising, and however evidenced and whether incurred voluntarily or involuntarily, known or unknown, or originally payable to the Bank or to a third party and subsequently acquired by Bank including, without limitation, any late charges; loan fees or charges; overdraft indebtedness; costs incurred by Bank in establishing, determining, continuing or defending the validity or priority of any security interest, pledge or other lien or in pursuing any of its rights or remedies under any loan document (or otherwise) or

in connection with any proceeding involving the Bank as a result of any financial accommodation to the undersigned (or any of them); and reasonable costs and expenses of attorneys and paralegals, whether inside or outside counsel is used, and whether any suit or other action is instituted, and to court costs if suit or action is instituted, and whether any such fees, costs or expenses are incurred at the trial court level or on appeal, in bankruptcy, in administrative proceedings, in probate proceedings or otherwise (collectively "Indebtedness") are secured by and the Bank is granted a security interest in all items deposited in any account of any of the undersigned with the Bank and by all proceeds of these items (cash or otherwise), all account balances of any of the undersigned from time to time with the Bank, by all property of any of the undersigned from time to time in the possession of the Bank and by any other collateral, rights and properties described in each and every deed of trust, mortgage, security agreement, pledge, assignment and other security or collateral agreement which has been, or will at any time(s) later be, executed by any (or all) of the undersigned to or for the benefit of the Bank (collectively "Collateral"). "Collateral" shall EXCLUDE intellectual property. Intellectual property includes "Proprietary Information." "Proprietary Information" shall mean trade secrets, confidential knowledge, data, or any other proprietary information of the undersigned and each of its subsidiaries or affiliated companies. By way of illustration but not limitation. "Proprietary Information" includes (a) inventions, trade secrets, ideas, concepts, processes, formulas, data, lists, software programs, all other works of authorship, mask works, proprietary test tooling, know-how, improvements, discoveries, developments, designs, and techniques relating to the business or proposed business of the undersigned whether or not any of the foregoing is or are patentable, copyrightable, or registrable under any intellectual property laws and (b) information owned by the undersigned or licensed from third parties regarding plans for research, development, products, services, marketing and selling, business plans, budgets and unpublished financial statements, licenses, prices and costs, suppliers, customers, customer lists (except to the extent necessary for Bank to perfect or exercise its lien on the undersigned's accounts receivable), information regarding the skills and compensation of other employees of the undersigned and (c) intellectual property of third parties in the undersigned's possession.

If an "Event of Default" (as defined in the Credit Agreement of even date herewith between the undersigned and the Bank, as from time to time amended, modified or restated) occurs then the Bank may at its option and without prior notice to the undersigned (or any of them), declare any or all of the Indebtedness to be immediately due and payable (notwithstanding any provisions contained in the evidence of it to the contrary), cease advancing money or extending credit to or for the benefit of the undersigned under this Note or any other agreement between the undersigned and Bank, terminate this Note as to any future liability or obligation of Bank, but without affecting Bank's rights and security interests in any Collateral or the Indebtedness, sell or liquidate all or any portion of the Collateral, set off against the Indebtedness any amounts owing by the Bank to the undersigned (or any of them), charge interest at the default rate provided in the document evidencing the relevant Indebtedness and exercise any one or more of the rights and remedies granted to the Bank by any agreement with the undersigned (or any of them) or given to it under applicable law. All payments under this Note shall be in immediately available United States funds, without setoff or counterclaim.

If this Note is signed by two or more parties (whether by all as makers or by one or more as an accommodation party or otherwise), the obligations and undertakings under this Note shall be that of all and any two or more jointly and also of each severally. This Note shall bind the undersigned, and the undersigned's respective heirs, personal representatives, successors and assigns.

The undersigned waive(s) presentment, demand, protest, notice of dishonor, notice of demand or intent to demand, notice of acceleration or intent to accelerate, and all other notices and agree(s) that no extension or indulgence to the undersigned (or any of them) or release, substitution or nonenforcement of any security, or release or substitution of any of the undersigned, any guarantor or any other party, whether with or without notice, shall affect the obligations of any of the undersigned. The undersigned waive(s) all defenses or right to discharge available under Section 3-605 of the Texas Uniform Commercial Code and waive(s) all other suretyship defenses or right to discharge. The undersigned agree(s) that the Bank has the right to sell, assign, or grant participations, or any interest, in any or all of the Indebtedness, and that, in connection with this right, but without limiting its ability to make other disclosures to the full extent allowable, the Bank may disclose all documents and information which the Bank now or later has relating to the undersigned or the Indebtedness. The undersigned agree(s) that the Bank may provide information relating to the Note or to the undersigned to the Bank's parent, affiliates, subsidiaries and service providers.

The undersigned agree(s) to reimburse the holder or owner of this Note for any and all costs and expenses (including without limit, court costs, legal expenses and reasonable attorney fees, whether inside or outside counsel is used, whether or not suit is instituted and, if suit is instituted, whether at the trial court level, appellate level, in a bankruptcy, probate or administrative proceeding or otherwise) incurred in collecting or attempting to collect this Note or incurred in any other matter or proceeding relating to this Note.

The undersigned acknowledge(s) and agree(s) that there are no contrary agreements, oral or written, establishing a term of this Note and agree(s) that the terms and conditions of this Note may not be amended, waived or modified except in a writing signed by an officer of the Bank expressly stating that the writing constitutes an amendment, waiver or modification of the terms of this Note. As used in this Note, the word "undersigned" means, individually and collectively, each maker, accommodation party, indorser and other party signing this Note in a similar capacity. If any provision of this Note is unenforceable in whole or part for any reason, the remaining provisions shall continue to be effective. Chapter 346 of the Texas Finance Code (and as the same may be incorporated by reference in other Texas statutes) shall not apply to the indebtedness evidenced by this Note. THIS NOTE IS MADE IN THE STATE OF TEXAS AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF TEXAS, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES.

This Note and all other documents, instruments and agreements evidencing, governing, securing, guaranteeing or otherwise relating to or executed pursuant to or in connection with this Note or the indebtedness evidenced hereby (whether executed and delivered prior to, concurrently with or subsequent to this Note), as such documents may have been or may hereafter be amended from time to time (the "Loan Documents") are intended to be performed in accordance with, and only to the extent permitted by, all applicable usury laws. If any provision hereof or of any of the other Loan Documents or the application thereof to any person or circumstance shall, for any reason and to any extent, be invalid or unenforceable, neither the application of such provision to any other person or circumstance nor the remainder of the instrument in which such provision is contained shall be affected thereby and shall be enforced to the greatest extent permitted by law. It is expressly stipulated and agreed to be the intent of the holder hereof to at all times comply with the usury and other applicable laws now or hereafter governing the interest payable on the indebtedness evidenced by this Note. If the applicable law is ever revised, repealed or judicially interpreted so as to render usurious any amount called for under this Note or under any of the other Loan Documents, or contracted for, charged, taken, reserved or received with respect to the indebtedness evidenced by this Note, or if Bank's exercise of the option to accelerate the maturity of this Note, or if any prepayment by the undersigned or prepayment agreement results (or would, if complied with, result) in the undersigned having paid, contracted for or being charged for any interest in excess of that permitted by law, then it is the express intent of the undersigned and Bank that this Note and the other Loan Documents shall be limited to the extent necessary to prevent such result and all excess amounts theretofore collected by Bank shall be credited on the principal balance of this Note or, if fully paid, upon such other indebtedness as shall then remaining outstanding (or, if this Note and all other indebtedness have been paid in full, refunded to the undersigned), and the provisions of this Note and the other Loan Documents shall immediately be deemed reformed and the amounts thereafter collectable hereunder and thereunder reduced, without the necessity of the execution of any new document, so as to comply with the then applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder or thereunder. All sums paid, or agreed to be paid, by the undersigned for the use, forbearance, detention, taking, charging, receiving or reserving of the indebtedness of the undersigned to Bank under this Note or arising under or pursuant to the other Loan Documents shall, to the maximum extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full so that the rate or amount of interest on account of such indebtedness does not exceed the usury ceiling from time to time in effect and applicable to such indebtedness for so long as such indebtedness is outstanding. To the extent federal law permits Bank to contract for, charge or receive a greater amount of interest, Bank will rely on federal law instead of the Texas Finance Code for the purpose of determining the maximum Rate.

Additionally, to the maximum extent permitted by applicable law now or hereafter in effect, Bank may, at its option and from time to time, implement any other method of computing the Maximum Rate under the Texas Finance Code or under other applicable law, by giving notice, if required, to the undersigned as provided by applicable law now or hereafter in effect. Notwithstanding anything to the contrary contained herein or in any of the

other Loan Documents, it is not the intention of Bank to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

THE UNDERSIGNED AND THE BANK ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED, EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR CHOICE, KNOWINGLY AND VOLUNTARILY, AND FOR THEIR MUTUAL BENEFIT, WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THE PERFORMANCE OR ENFORCEMENT OF, OR IN ANY WAY RELATED TO, THIS NOTE OR THE INDEBTEDNESS.

THIS WRITTEN LOAN AGREEMENT (AS DEFINED BY SECTION 26.02 OF THE TEXAS BUSINESS AND COMMERCE CODE) REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Silicon Laboratories Inc. By: /s/ Navdeep Sooch Its: Chief Executive Officer

OBLIGOR NAME TYPED/PRINTED SIGNATURE OF TITLE (if applicable)

By: /s/ John W. McGovern Its: Chief Financial Officer

SIGNATURE OF TITLE (if applicable)

By: ----- Its: -----
SIGNATURE OF TITLE (if applicable)

4635 Boston Lane Austin Texas Travis 78735

Street Address City State Country Zip Code

-- For
Bank Use
Only CCAR#

-- Loan
Officer
Initials
Loan Group
name
Obligor(s)
Name -----

Loan
Officer
I.D. No.
Loan Group
No.
Obligor #
Note #

Amount ---

CREDIT AGREEMENT

THIS CREDIT AGREEMENT is made and delivered to be effective as of September 5, 2001, by and between SILICON LABORATORIES INC. (herein referred to with all successors, assigns and/or personal representatives as the "Borrower"), and COMERICA BANK-TEXAS (herein referred to with its successors and assigns as the "Bank"). For and in consideration of the mutual promises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower and Bank agree as follows:

SECTION 1. DEFINITIONS

1.1 DEFINED TERMS. The following terms, as used in this Agreement, shall have the meanings set forth below. The singular number shall be deemed to include the plural, the masculine gender shall include the feminine and neuter genders, and vice versa.

"ADVANCE FORMULA AGREEMENT" shall mean the Advance Formula Agreement of even date herewith between Borrower and Bank, as from time to time amended, modified or restated.

"AFFILIATE" shall mean, when used with respect to any Person, any other Person which, directly or indirectly, controls or is controlled by or is under common control with such Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), with respect to any Person, shall mean possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"AGREEMENT" shall mean this Credit Agreement, including all addenda, exhibits and schedules now or hereafter made a part hereof, as the same may be amended from time to time.

"APPLICABLE INTEREST RATE" shall mean, with respect to the Indebtedness from time to time outstanding under any promissory note or other Loan Document evidencing the Indebtedness, the rate or rates provided in such note as the applicable interest rate.

"COLLATERAL" shall mean all property, assets and rights in which a Lien or other encumbrance in favor of or for the benefit of Bank is or has been granted or arises or has arisen, or may hereafter be granted or arise, under or in connection with any Loan Document, or otherwise, to secure the payment or performance of any portion of the Indebtedness. "Collateral" shall EXCLUDE intellectual property. Intellectual property includes "Proprietary Information". "Proprietary Information" shall mean trade secrets, confidential knowledge, data, or any other proprietary information of the Borrower and each of its subsidiaries or affiliated companies. By way of illustration but not limitation, "Proprietary Information" includes (a) inventions, trade secrets, ideas, concepts, processes, formulas, data, lists, software programs, all other works of authorship, mask works, proprietary test tooling, know-how, improvements, discoveries, developments, designs, and techniques relating to the business or proposed business of the Borrower whether or not any of the foregoing is or are patentable, copyrightable, or registrable under any intellectual property laws and (b) information owned by the Borrower or licensed from third parties regarding plans for research, development, products, services, marketing and selling, business plans, budgets and unpublished financial statements, licenses, prices and costs, suppliers, customers, customer lists (except to the extent necessary for Bank to perfect or exercise its lien on the Borrower's accounts receivable), information regarding the skills and compensation of other employees of the Borrower and (c) intellectual property of third parties in Borrower's possession.

"CREDIT CARD EXPOSURE" shall mean the maximum amount that Borrower may at any time have outstanding under one or more corporate credit cards issued by Bank to Borrower, which amount shall initially be \$300,000.

"DEBT" shall mean, as of any applicable date of determination thereof, all liabilities of a Person that should be classified as liabilities in accordance with GAAP. In the case of Borrower, the term "Debt" shall include, without limitation, the Indebtedness.

"DEFAULT" shall mean, any condition or event which, with the giving of notice or the passage of time, or both, would constitute an Event of Default.

"ENVIRONMENTAL LAW(S)" shall mean all laws, codes, ordinances, rules, regulations, orders, decrees and directives issued by any federal, state, local, foreign or other governmental or quasi governmental authority or body (or any agency, instrumentality or political subdivision thereof) pertaining to Hazardous Materials or otherwise intended to regulate or improve health, safety or the environment, including, without limitation, any hazardous materials or wastes, toxic substances, flammable, explosive or radioactive materials, asbestos, and/or other similar materials; any so-called "superfund" or "superlien" law, pertaining to Hazardous Materials on or about any of the Collateral, or any other property at any time owned, leased or otherwise used by any Loan Party, or any portion thereof, including, without limitation, those relating to soil, surface, subsurface ground water conditions and the condition of the ambient air; and any other federal, state, foreign or local statute, law, ordinance, code, rule, regulation, order or decree regulating, relating to, or imposing liability or standards of conduct concerning, any hazardous, toxic, radioactive, flammable or dangerous waste, substance or material, as now or at anytime hereafter in effect.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended, or any successor act or code.

"EVENT OF DEFAULT" shall mean any of those conditions or events listed in SECTION 6.1 of this Agreement.

"FACILITY USAGE" shall mean, at the time in question, the aggregate amount of outstanding Revolving Loans, existing Letter of Credit Liabilities and Credit Card Exposure at such time.

"GAAP" shall mean generally accepted accounting principles consistently applied.

"GOVERNMENTAL AUTHORITY" shall mean the United States, each state, each county, each city, and each other political subdivision in which all or any portion of the Collateral is located, and each other political subdivision, agency, or instrumentality exercising jurisdiction over Bank, any Loan Party, any of the Indebtedness or any Collateral.

"GOVERNMENTAL REQUIREMENTS" shall mean all laws, ordinances, rules, and regulations of any Governmental Authority applicable to any Loan Party, any of the Indebtedness or any Collateral.

"GUARANTOR(S)" shall mean, as the context dictates, any Person(s) (other than the Borrower) who shall, at any time, guarantee or otherwise be or become obligated for the repayment of all or any part of the Indebtedness.

"HAZARDOUS MATERIAL" shall mean and include any hazardous, toxic or dangerous waste, substance or material defined as such in, or for purposes of, any Environmental Law(s).

"INDEBTEDNESS" shall mean all obligations and liabilities of any Loan Party to Bank under any Loan Document, together with all other indebtedness, obligations and liabilities whatsoever of Borrower to Bank, whether matured or unmatured, liquidated or unliquidated, direct or indirect, absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, voluntary or involuntary, known or unknown, or originally payable to Bank or to a third party and subsequently acquired by Bank including, without limitation, any: late charges; loan fees or charges; overdraft indebtedness; costs incurred by Bank in establishing, determining, continuing or defending the validity or priority of any Lien or in pursuing any of its rights or remedies under any Loan Document or in connection with any proceeding involving Bank as a result of any financial accommodation to Borrower; debts, obligations and liabilities for which Borrower would otherwise be liable to the Bank were it not for the invalidity or enforceability of them by reason of any bankruptcy, insolvency or other law or for any other reason; and reasonable costs and expenses of attorneys and paralegals, whether any suit or other action is instituted, and to court costs if suit or action is instituted, and whether any such fees, costs or expenses are incurred at the trial court level or on appeal, in bankruptcy, in administrative proceedings, in probate proceedings or

otherwise; provided, however, that the term Indebtedness shall not include any consumer loan to the extent treatment of such loan as part of the Indebtedness would violate any Governmental Requirement.

"LETTER OF CREDIT" shall mean a letter of credit issued by the Bank for the account of and/or upon the application of the Borrower in accordance with this Agreement, as such Letter of Credit may be amended, supplemented, extended or confirmed from time to time.

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"LETTER OF CREDIT LIABILITIES" shall mean, at any time and in respect of all Letters of Credit, the sum of (a) the aggregate amount available to be drawn under all such Letters of Credit plus (b) the aggregate unpaid amount of all Reimbursement Obligations then due and payable in respect of previous drawings under such Letters of Credit.

"LIEN" shall mean any valid and enforceable interest in any property, whether real, personal or mixed, securing an indebtedness, obligation or liability owed to or claimed by any Person other than the owner of such property, whether such indebtedness is based on the common law or any statute or contract and including, but not limited to, a security interest, pledge, mortgage, assignment, conditional sale, trust receipt, lease, consignment or bailment for security purposes.

"LOAN DOCUMENTS" shall mean collectively, this Agreement, any promissory notes evidencing Indebtedness, any approved subordination agreement, any reimbursement agreement or other documentation executed in connection with any Letter of Credit, and any other documents, instruments or agreements evidencing, governing, securing, guaranteeing or otherwise relating to or executed pursuant to or in connection with any of the Indebtedness or any Loan Document (whether executed and delivered prior to, concurrently with or subsequent to this Agreement), as such documents may have been or may hereafter be amended from time to time.

"LOAN PARTY" shall mean Borrower, each of its Subsidiaries (whether or not a party to any Loan Document) and each other Person who or which shall be liable for the payment or performance of all or any portion of the Indebtedness or who or which shall own any property that is subject to (or purported to be subject to) a Lien which secures all or any portion of the Indebtedness.

"MATERIAL ADVERSE EFFECT" shall mean any act, event, condition or circumstance which would likely materially and adversely affect the business, operations, condition (financial or otherwise), performance or assets of any Loan Party, the ability of any Loan Party to perform its obligations under any Loan Document to which it is a party or by which it is bound or the enforceability of any Loan Document.

"MAXIMUM LEGAL RATE" shall mean the maximum rate of nonusurious interest per annum permitted to be paid by Borrower or, if applicable, another Loan Party or received by Bank with respect to the applicable portion of the Indebtedness from time to time under applicable state or federal law as now or as may be hereafter in effect, including without limitation, that rate based upon the "weekly ceiling rate" (as defined in Chapter 303 of the Texas Finance Code).

"PBGC" shall mean the Pension Benefit Guaranty Corporation, or any Person succeeding to the present powers and functions of the Pension Benefit Guaranty Corporation.

"PENSION PLAN(S)" shall mean any and all employee benefit pension plans of Borrower and/or any of its Subsidiaries in effect from time to time, as such term is defined in ERISA.

"PERMITTED ENCUMBRANCES" shall mean: (a) Liens in favor of the Bank; (b) Liens for taxes, assessments or other governmental charges which are not yet due and payable, incurred in the ordinary course of business and for which no interest, late charge or penalty is attaching or which are being contested in good faith by appropriate proceedings and, if requested by Bank, bonded in an amount and manner satisfactory to Bank; (c) Liens, not delinquent, arising in the ordinary course of business and created by statute in connection with worker's compensation, unemployment insurance, social security and similar statutory obligations; (d) Liens of mechanics, materialmen, carriers, warehousemen or other like statutory or common law Liens securing obligations incurred in good faith in the ordinary course of business without violation of any Loan Document that are not yet due and

payable; and (e) Liens existing as of the date hereof identified as follows: Comdisco, Third Coast Capital, Finova and certain other equipment rental agreements, to the extent each such Lien is limited to the equipment subject to such rental agreement and the amount secured by each such Agreement is less than \$100,000 individually and the aggregate amount of such Debt does not exceed \$500,000.

"PERSON" or "PERSON" shall mean any individual, corporation, partnership, joint venture, limited liability company, association, trust, unincorporated association, joint stock company, government, municipality, political subdivision or agency, or other entity.

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"REIMBURSEMENT OBLIGATIONS" shall mean, at any time and in respect of all Letters of Credit, the aggregate obligations of the Borrower, then outstanding or which may thereafter arise, to reimburse the Bank for any amount paid or incurred by the Bank in respect of any and all drawings under such Letters of Credit, together with any and all other Indebtedness, obligations and liabilities of any Loan Party to Bank related to such Letters of Credit arising under this Agreement, any Letter of Credit application or any other Loan Document.

"REVOLVING CREDIT MATURITY DATE" shall mean September 5, 2003, or such earlier date on which the entire unpaid principal amount of all Revolving Loans becomes due and payable whether by the lapse of time, demand for payment, acceleration or otherwise; provided, however, if any such date is not a business day, then the Revolving Credit Maturity Date shall be the next succeeding business day.

"REVOLVING CREDIT MAXIMUM AMOUNT" shall mean the lesser of (a) \$5,000,000, or (b) the maximum amount permitted by the Advance Formula Agreement.

"REVOLVING CREDIT NOTE" shall mean the Master Revolving Note dated of even date herewith in the maximum original principal amount of \$5,000,000 made by Borrower payable to the order of the Bank, as the same may be renewed, extended, modified, increased or restated from time to time.

"REVOLVING LOAN" shall mean an advance made, or to be made, under the revolving credit facility to or for the credit of Borrower by the Bank pursuant to this Agreement.

"SUBORDINATED DEBT" shall mean any Debt of Borrower (other than the Indebtedness) which has been subordinated to the Indebtedness pursuant to a subordination agreement in form and content satisfactory to the Bank.

"SUBSIDIARY" shall mean as to any particular parent entity, any corporation, partnership, limited liability company or other entity (whether now existing or hereafter organized or acquired) in which more than fifty percent (50%) of the outstanding equity ownership interests having voting rights as of any applicable date of determination, shall be owned directly, or indirectly through one or more Subsidiaries, by such parent entity. As of the date of this Agreement, Borrower's only Subsidiaries are: Silicon Labs Isolation, Inc. and Silicon Laboratories UK Limited. Borrower has notified Bank that it intends to establish a Subsidiary in Japan.

"UCC" shall mean the Uniform Commercial Code as adopted and in force in the State of Texas, as amended.

1.2 ACCOUNTING TERMS. All accounting terms not specifically defined in this Agreement shall be determined and construed in accordance with GAAP.

SECTION 2 . FUNDING LOANS, PAYMENTS, RECOVERIES AND COLLECTIONS

2.1 FUNDING LOANS. Subject to the terms, conditions and procedures of this Agreement and each other Loan Document and to the satisfaction of all conditions precedent to the making and funding of any loan as set forth in any Loan Document, Bank shall make the proceeds of any such loan available to Borrower on the disbursement date agreed upon by Bank and Borrower by depositing such proceeds into an account maintained by Borrower with Bank or as otherwise agreed to in writing by Borrower and Bank.

2.2 REVOLVING LOANS. Subject to the terms and conditions of the Loan Documents and to the satisfaction of all conditions precedent to the

making and funding of any loan as set forth in any Loan Document, the Bank agrees to make Revolving Loans to Borrower at any time and from time to time from the effective date hereof until (but not including) the Revolving Credit Maturity Date. The proceeds of Revolving Loans shall be used solely for working capital needs and other general corporate purposes of Borrower.

Except as hereinafter provided, Borrower may request a Revolving Loan by submitting to Bank a request for advance by an authorized officer or other representative of Borrower, subject to the following: (a) each such request for advance shall include, without limitation, the proposed amount of such revolving loan and the proposed disbursement date, which date must be a business day; (b) each such request for advance shall be communicated to Bank by 2:00 p.m. (Dallas, Texas time) on the proposed disbursement date; (c) a request for advance, once communicated to Bank, shall not be revocable by Borrower; and (d) each request for advance, once communicated to Bank, shall constitute a representation, warranty and certification by Borrower as of the date thereof that:

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(i) both before and after the making of such Revolving Loan, the obligations set forth in the Loan Documents are and shall be valid, binding and enforceable obligations of each Loan Party, as applicable; (ii) all terms and conditions precedent to the making of such Revolving Loan have been satisfied, and shall remain satisfied through the date of such Revolving Loan; (iii) the making of such Revolving Loan will not cause the Facility Usage to exceed the Revolving Credit Maximum Amount; (iv) no Default or Event of Default shall have occurred or be in existence, and none will exist or arise upon the making of such Revolving Loan; (v) the representations and warranties contained in the Loan Documents are true and correct in all material respects and shall be true and correct in all material respects as of the making of such Revolving Loan; and (vi) the request for advance will not violate the terms or conditions of any contract, indenture, agreement or other borrowing of any Loan Party.

Bank may elect (but without any obligation to do so) to make a Revolving Loan upon the telephonic or facsimile request of Borrower, provided that Borrower has first executed and delivered to Bank a telephone notice authorization in form and content satisfactory to Bank. If any such Revolving Loan based upon a telephonic or facsimile request is made by Borrower, Bank may require Borrower to confirm said telephonic or facsimile request in writing by delivering to Bank, on or before 11:00 a.m. (Dallas, Texas time) on the next business day following the disbursement date of such Revolving Loan, a duly executed written request for advance, and all other provisions of this SECTION 2.2 shall be applicable with respect to such Revolving Loan. In addition, Borrower may authorize the Bank to automatically make revolving loans pursuant to such other written agreements as may be entered into by Bank and Borrower.

Notwithstanding anything contained in this Agreement to the contrary, the Facility Usage shall not at any time exceed the Revolving Credit Maximum Amount. If said limitations are exceeded at anytime, Borrower shall immediately, without demand by Bank, pay to Bank an amount not less than such excess, or, if Bank, in its sole discretion, shall so agree, Borrower shall provide Bank cash collateral in an amount not less than such excess, and Borrower hereby pledges and grants to Bank a security interest in such cash collateral so provided to Bank. Unless otherwise expressly provided in a Loan Document, all sums payable by Borrower to Bank under or pursuant to any Loan Document, whether principal, interest, or otherwise, shall be paid, when due, directly to Bank at any office of Bank located in the State of Texas in immediately available United States funds, and without setoff, deduction or counterclaim. Bank may, in its discretion, charge any and all deposit or other accounts (including, without limitation, any account evidenced by a certificate of deposit or time deposit) of Borrower maintained with Bank for all or any part of any Indebtedness then due and payable; provided, however, that such authorization shall not affect Borrower's obligations to pay all Indebtedness, when due, whether or not any such account balances maintained by Borrower with Bank are insufficient to pay any amounts then due.

Borrower shall pay to Bank an annual facility fee in an amount equal to the product of (a) one quarter of one percent (0.25%) per annum multiplied by (b) the stated principal amount of the Revolving Credit Note. Such fee shall be computed and shall be payable on the date of

this Agreement and on each annual anniversary date hereafter.

The provisions of Chapter 346 of the Texas Finance Code are specifically declared by the parties not to be applicable to any of the Loan Documents or the transactions contemplated thereby.

2.3 LETTERS OF CREDIT. Subject to the terms and conditions of this Agreement and the other Loan Documents, the Bank shall, upon request from Borrower from time to time prior to the Revolving Credit Maturity Date, issue one or more Letters of Credit. The Letter of Credit Liabilities shall not exceed \$2,000,000; and the Facility Usage shall not exceed the Revolving Credit Maximum Amount. No Letter of Credit shall have a stated expiration date later than the Revolving Credit Maturity Date, and no Letter of Credit shall provide that it will automatically renew upon its stated expiration date.

Borrower shall give the Bank written notice requesting each issuance of a Letter of Credit hereunder not less than two business days prior to the requested issuance date and shall furnish such additional information regarding such transaction as Bank may request. The issuance by Bank of each Letter of Credit shall, in addition to the conditions precedent set forth elsewhere in this Agreement, be subject to the conditions precedent that (i) such Letter of Credit shall be in form and substance satisfactory to Bank, (ii) Borrower shall have executed and delivered such applications and other instruments and agreements relating to such Letter of Credit as Bank shall have requested and are not inconsistent with the terms of this Agreement (iii) each of the statements in SECTION 2.2 (d) above are true as of the date of issuance of such Letter of Credit with respect to issuance of such Letter of Credit (as opposed to making a Revolving Loan), and the submission of an application for issuance of a Letter of Credit shall constitute a representation, warranty and certification of Borrower to that effect, and (iv) no Letter of Credit may be issued if after giving effect thereto, the sum of the aggregate outstanding principal balance of all Revolving Loans plus the Letter of Credit Liabilities would exceed the Revolving Credit Maximum Amount.

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With respect to the issuance or renewal of each Letter of Credit, Borrower shall pay to Bank such letter of credit fees and other expenses customarily charged by Bank in connection with the issuance or renewals of letters of credit.

Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse Bank for any amount paid by Bank upon any drawing under any Letter of Credit, without presentment, demand, protest or other formalities of any kind, all of which are hereby waived. Unless Borrower shall elect to otherwise satisfy such Reimbursement Obligation, such reimbursement shall, subject to satisfaction of any conditions provided herein for the making of Revolving Loans and to the Revolving Credit Maximum Amount, automatically be made by advancing to Borrower a Revolving Loan in the amount of such Reimbursement Obligation.

In consideration of Bank's issuance of any Letter of Credit, Borrower shall pay to Bank a letter of credit issuance fee equal to one percent (1%) per annum. Such fee shall be calculated based on the term and face amount of such Letter of Credit and the above rate and will be payable quarterly in arrears.

2.4 MAXIMUM INTEREST RATE. At no time shall any Applicable Interest Rate or default rate in respect of any Indebtedness hereunder, exceed the Maximum Legal Rate. In the event that any interest is charged or otherwise received by Bank in excess of the Maximum Legal Rate, Borrower hereby acknowledges and agrees that any such excess interest shall be the result of an accidental and bona fide error, and any such excess shall be deemed to have been payment of principal, and not of interest, and shall be applied, first, to reduce the principal Indebtedness then outstanding, second, any remaining excess, if any, shall be applied to reduce any other Indebtedness, and third, any remaining excess, if any, shall be returned to Borrower. Notwithstanding the foregoing or anything to the contrary contained in this Agreement or any other Loan Document, but subject to all limitations contained in this Section, if at anytime any Applicable Interest Rate or default rate or other rate of interest applicable to any portion of the Indebtedness is computed on the basis of the Maximum Legal Rate, any subsequent reduction in the Applicable Interest Rate, default rate or such other rate of interest shall not reduce such

interest rate thereafter payable below the Maximum Legal Rate until the aggregate amount of interest accrued equals the total amount of interest that would have accrued if interest had, at all times, been computed solely on the basis of the Applicable Interest Rate, default rate or such other interest rate. This Section shall control all agreements between the Borrower and the Bank.

2.5 RECEIPT OF PAYMENTS BY BANK. Any payment by Borrower of any of the Indebtedness made by mail will be deemed tendered and received by Bank only upon actual receipt thereof by Bank at the address designated for such payment, whether or not Bank has authorized payment by mail or in any other manner, and such payment shall not be deemed to have been made in a timely manner unless actually received by Bank on or before the date due for such payment, time being of the essence. Borrower expressly assumes all risks of loss or liability resulting from non-delivery or delay of delivery of any item of payment transmitted by mail or in any other manner. Acceptance by Bank of any payment in an amount less than the amount then due shall be deemed an acceptance on account only, and any failure to pay the entire amount then due shall constitute and continue to be an Event of Default. Prior to the occurrence of any Default, Borrower shall have the right to direct the application of any and all payments made to Bank hereunder to the Indebtedness evidenced by the respective notes evidencing the Indebtedness. Borrower waives the right to direct the application of any and all payments received by Bank hereunder at any time or times after the occurrence and during the continuance of any Default. Borrower further agrees that after the occurrence and during the continuance of any Default, or prior to the occurrence of any Default if Borrower has failed to direct such application, Bank shall have the continuing exclusive right to apply and to reapply any and all payments received by Bank at any time or times, whether as voluntary payments, proceeds from any Collateral, offsets, or otherwise, against the Indebtedness in such order and in such manner as Bank may, in its sole discretion, deem advisable, notwithstanding any entry by Bank upon any of its books and records. Borrower hereby expressly agrees that, to the extent that Bank receives any payment or benefit of or otherwise upon any of the Indebtedness, and such payment or benefit, or any part thereof, is subsequently invalidated, declared to be fraudulent or preferential, set aside, or required to be repaid to a trustee, receiver, or any other Person under any bankruptcy act, state or federal law, common law, equitable cause or otherwise, then to the extent of such payment or benefit, the Indebtedness, or part thereof, intended to be satisfied shall be revived and continued in full force and effect as if such payment or benefit had not been made or received by Bank, and, further, any such repayment by Bank shall be added to and be deemed to be additional Indebtedness.

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2.6 CONDITIONS PRECEDENT TO LOANS AND LETTERS OF CREDIT. The obligation of the Bank to issue any Letter of Credit, if applicable, or to make any loan under or pursuant to this Agreement shall be subject to the following conditions precedent:

a. Borrower shall have executed and delivered to Bank, or caused to have been executed and delivered to Bank, all such instruments, agreements, certificates, opinions, financial statements, appraisals, evidence of title, evidence of insurance, environmental audits, and other information and other documents as the Bank shall require, and all of the foregoing shall be in form and content acceptable to Bank and all instruments and agreements shall be in full force and effect and binding and enforceable obligations of Borrower and, to the extent that it is a party thereto or otherwise bound thereby, of each other Person who may be a party thereto or bound thereby including without limitation: (i) evidence of existence, good standing, qualification to conduct business and authority for each Loan Party and signatory on behalf of each Loan Party; (ii) all notes, guaranties, security agreements, mortgages, deeds of trust, pledge agreements, assignments, financing statements and other documents requested by Bank to evidence the Indebtedness or to create, protect or perfect Liens upon the Collateral required by Bank as security for the Indebtedness and to accord Bank a perfected security position in the Collateral, subject only to Permitted Encumbrances;; (iii) a guaranty agreement from each Guarantor required by Bank; (iv) such other documents or agreements of security, assurances of Loan Document validity, legality and enforceability, and appropriate assurances of

validity, perfection and priority of Lien as Bank may request, and Bank shall have received proof that appropriate security agreements, financing statements, mortgages, deeds of trust, collateral and other documents covering the Collateral shall have been executed and delivered by the appropriate Persons and recorded or filed in such jurisdictions and such other steps shall have been taken as necessary to perfect and protect, subject only to Permitted Encumbrances, the Liens granted thereby.

- b. All actions, proceedings, instruments and documents required to carry out the borrowings and transactions contemplated by this Agreement or any other Loan Document or incidental thereto, and all other related legal matters, shall have been satisfactory to and approved by Bank.
- c. Each Loan Party shall have performed and complied with all agreements and conditions contained in the Loan Documents applicable to it and which are then in effect.
- d. Each of the representations and warranties of each Loan Party under any Loan Document shall be true and correct in all material respects as if made on each loan disbursement date.
- e. No Default or Event of Default shall have occurred and be continuing; there shall have been no material adverse change in the condition (financial or otherwise), properties, business, or operations of any Loan Party since the date of the financial statements most recently delivered to Bank prior to the date of this Agreement; and no provision of law, any order of any Governmental Authority, or any regulation, rule or interpretation thereof, shall have had any Material Adverse Effect on the validity or enforceability of any Loan Document.

SECTION 3. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants, and such representations and warranties shall be deemed to be continuing representations and warranties during the entire life of this Agreement, and so long as Bank shall have any commitment or obligation to make any loans or issue any Letters of Credit, if applicable and so long as any Indebtedness remains unpaid and outstanding under any Loan Document, as follows:

- 3.1 **AUTHORITY.** Each Loan Party and, if applicable, each of its partners and members who is not a natural Person is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and is duly qualified and authorized to do business in each other jurisdiction in which the character of its assets or the nature of its business makes such qualification necessary.
 - 3.2 **DUE AUTHORIZATION.** Each Loan Party has all requisite power and authority to execute, deliver and perform its obligations under each Loan Document to which it is a party or is otherwise bound, all of which have been duly authorized by all necessary action, and are not in contravention of law or the terms of any Loan Party's organizational or other governing documents.
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- 3.3 **TITLE TO PROPERTY.** Each Loan Party has good title to all property and assets purported to be owned by it, including those assets identified on the financial statements most recently delivered to Bank.
 - 3.4 **ENCUMBRANCES.** There are no security interests or other Liens or encumbrances on, and no financing statements on file with respect to, any of the property or assets of any Loan Party, except for Permitted Encumbrances.
 - 3.5 **SUBSIDIARIES.** Borrower has no Subsidiaries except those specifically disclosed in the Defined Terms.
 - 3.6 **TAXES.** Each Loan Party has filed, on or before their respective due dates, all federal, state, local and foreign tax returns which are required to be filed, or has obtained extensions for filing such tax returns, and is not delinquent in filing such returns in accordance with such extensions, and has paid all taxes which have become due pursuant to those returns or pursuant to any assessments received by any such party, as the case may be, to the extent such taxes have become due, except to the extent such tax payments are being actively

and diligently contested in good faith by appropriate proceedings, and if requested by Bank, have been bonded or reserved in an amount and manner satisfactory to Bank.

- 3.7 NO-DEFAULTS. There exists no default (or event which, with the giving of notice or passage of time, or both, would result in a default) under the provisions of any instrument or agreement evidencing, governing, securing or otherwise relating to any Debt of any Loan Party or pertaining to any of the Permitted Encumbrances.
- 3.8 ENFORCEABILITY OF AGREEMENT AND LOAN DOCUMENTS. Each Loan Document has been duly executed and delivered by duly authorized officer(s) or other representative(s) of each Loan Party and constitutes the valid and binding obligation of each Loan Party, enforceable in accordance with its terms, except to the extent that enforcement thereof may be limited by applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting the enforcement of creditors' rights generally at the time in effect.
- 3.9 NON-CONTRAVENTION. The execution, delivery and performance by each Loan Party of the Loan Documents to which such Loan Party is a party or otherwise bound, are not in contravention of the terms of any indenture, agreement or undertaking to which any such Loan Party is a party or by which it is bound, except to the extent that such terms have been waived or that failure to comply with any such terms would not have a Material Adverse Effect.
- 3.10 ACTIONS, SUITS, LITIGATION OR PROCEEDINGS. There are no actions, suits, litigation or proceedings, at law or in equity, and no proceedings before any arbitrator or by or before any Governmental Authority, pending, or, to the best knowledge of Borrower, threatened against or affecting any Loan Party, which, if adversely determined, could materially impair the right of any Loan Party to carry on its business substantially as now conducted or could have a Material Adverse Effect. No Loan Party is under investigation by, or is operating under any restrictions imposed by, any Governmental Authority.
- 3.11 COMPLIANCE WITH LAWS. Each Loan Party has complied with all Governmental Requirements, including, without limitation, Environmental Laws, to the extent that failure to so comply could have a Material Adverse Effect.
- 3.12 CONSENTS, APPROVALS AND FILINGS, ETC. Except as have been previously obtained or as otherwise expressly provided in this Agreement, no authorization, consent, approval, license, qualification or formal exemption from, or any filing, declaration or registration with, any Governmental Authority and no material authorization, consent or approval from any other Person, is required in connection with the execution, delivery and performance by any Loan Party of any Loan Document to which it is a party. All such authorizations, consents, approvals, licenses, qualifications, exemptions, filings, declarations and registrations which have previously been obtained or made, as the case may be, are in full force and effect and are not the subject of any attack, or to the knowledge of Borrower, any threatened attack, in any material respect, by appeal, direct proceeding or otherwise.
- 3.13 ENVIRONMENTAL REPRESENTATIONS. No Loan Party has used Hazardous Materials on, in, under or otherwise affecting any real or personal property now or at any time owned, occupied or operated by such Person or upon which such Person has a place of business which, in any manner, violates any Environmental Law, to the extent any such violation could result in a Material Adverse Effect, and to the best of Borrower's knowledge, no prior or current owner, occupant or operator of any of such property does or has used any Hazardous Materials on or affecting such property in any manner which violates any Environmental Law to the extent that any such violation could result in a Material Adverse Effect. No Loan Party has received any notice of any violation of any Environmental Law, and to the best knowledge of the Borrower, there have been no actions commenced or threatened by any Person against any such property or against any Loan Party for non-compliance with any Environmental Law which could result in a Material Adverse Effect.

- 3.14 ACCURACY OF INFORMATION. All financial statements previously furnished to Bank have been prepared in accordance with GAAP and fairly present the financial condition of Borrower and, as applicable, the consolidated financial condition of Borrower and such other Person(s) as such financial statements purport to present, and the results of

their respective operations as of the dates and for the periods covered thereby; and since the date(s) of said financial statements, there has been no material adverse change in the financial condition of Borrower or any other Person covered by such financial statements. Each Loan Party is solvent, able to pay its debts as they mature, has capital sufficient to carry on its business and has assets the fair market value of which exceed its liabilities, and no Loan Party will be rendered insolvent, under-capitalized or unable to pay debts generally as they become due by the execution or performance of any Loan Document to which it is a party or by which it is otherwise bound.

SECTION 4. AFFIRMATIVE COVENANTS

Borrower covenants and agrees that, until all instruments and agreements evidencing each and every loan, Letter of Credit and other financial accommodation by the Bank to the Borrower or any Loan Party are fully discharged and terminated, and thereafter, so long as any Indebtedness remains outstanding, it will, and, as applicable, it will cause each Loan Party within its control or under common control to:

- 4.1 PRESERVATION OF EXISTENCE, ETC. Preserve and maintain its existence and preserve and maintain such of its rights, licenses, and privileges as are material to the business and operations conducted by it; qualify and remain qualified to do business in each jurisdiction in which such qualification is material to its business and operations or ownership of its properties, continue to conduct and operate its business substantially as conducted and operated during the present and preceding calendar year; at all times maintain, preserve and protect all of its franchises and trade names and preserve all the remainder of its property and keep the same in good repair, working order and condition; and from time to time make, or cause to be made, all needed and proper repairs, renewals, replacements, betterments and improvements thereto.
- 4.2 KEEPING OF BOOKS; AUDITS OF COLLATERAL; FEES. Keep proper books of record and account in which full and correct entries shall be made of all of its financial transactions and its assets and businesses so as to permit the presentation of financial statements prepared in accordance with GAAP; and permit Bank, or its representatives, at reasonable times and intervals, at Borrower's cost and expense, to examine its books and records and to discuss its financial matters with its officers, employees and independent certified public accountants; and permit Bank from time to time to audit Borrower's accounts, inventory, or other Collateral, provided that such audits will be conducted upon reasonable notice. Borrower agrees to reimburse Bank, on demand, for customary and reasonable fees and costs incurred by Bank for such audits, and for each appraisal of Collateral and financial analysis and examination of Borrower performed from time to time by its agents.
- 4.3 REPORTING REQUIREMENTS. Borrower maintains a policy regarding insider trading (Statement of Company Policy--Regarding Insider Trading) and Lender acknowledges receipt of such policy. Furnish to Bank, or cause to be furnished to Bank, the following:
 - a. as soon as possible, and in any event within three (3) calendar days after becoming aware of the occurrence or existence of each Default or Event of Default hereunder or any material adverse change in the financial condition of any Loan Party, a written statement of the chief financial officer of Borrower (or in his or her absence, a responsible senior officer of Borrower), setting forth details of such Default, Event of Default or change, and the action which Borrower has taken, or has caused to be taken, or proposes to take, or to cause to be taken, with respect thereto;
 - b. as soon as available, and in any event within ninety (90) days after and as of the end of each fiscal year of Borrower, audited financial statements of Borrower and such other of the Loan Parties as may be required by the Bank, consolidated, as applicable, including a balance sheet, income statement, surplus reconciliation statement and statement of cash flows, for and as of such fiscal year then ending and including such other comments and financial details as are usually included in similar reports. Such financial statements shall be prepared in accordance with GAAP by independent certified public accountants of recognized standing selected by Borrower and approved by Bank and containing unqualified opinions as to the fairness of the statements therein contained;

- c. during any period of time the Facility Usage is less than \$2,000,000, as soon as available, and in any event within forty-five (45) days after and as of the end of each fiscal quarter, including the last such reporting period of each of Borrower's fiscal years, financial statements of Borrower and such of the other Loan Parties as may be required by the Bank, consolidated, as applicable, for and as of such reporting period, including a balance sheet, income statement, surplus reconciliation statement and statement of cash flows for and as of such reporting period then ending and for and as of that portion of the fiscal year then ending, in each case, prepared by the chief financial officer of Borrower (or in his or her absence, a responsible senior officer of Borrower) and, as applicable, each other Loan Party as to consistency with prior financial reports and accounting periods, accuracy and fairness of presentation;
- d. during any period of time the Facility Usage is equal to or greater than \$2,000,000, as soon as available, and in any event within thirty (30) days after and as of the end of each calendar month, including the last such reporting period of each of Borrower's fiscal years, financial statements of Borrower and such of the other Loan Parties as may be required by the Bank, consolidated, as applicable, for and as of such reporting period, including a balance sheet, income statement, surplus reconciliation statement and statement of cash flows for and as of such reporting period then ending and for and as of that portion of the fiscal year then ending, in each case, prepared by the chief financial officer of Borrower (or in his or her absence, a responsible senior officer of Borrower) and, as applicable, each other Loan Party as to consistency with prior financial reports and accounting periods, accuracy and fairness of presentation;
- e. together with each set of financial statements furnished under subsections (c) and (d) above, furnish a certificate substantially in the form of Exhibit A attached hereto, signed by the chief financial officer of Borrower stating that such financial statements are accurate and complete (subject to normal year-end adjustments), that he has reviewed the Loan Documents, that no Event of Default exists at the end of such fiscal quarter or calendar month, as applicable, and reflecting the compliance by Borrower (together with reasonable detail of the calculations) with the financial covenants set forth herein;
- f. during any period of time the Facility Usage is less than \$2,000,000, as soon as available, and in any event, within forty-five (45) days after and as of the end of each fiscal quarter, including the last such reporting period of each fiscal year of Borrower, agings of the accounts receivable and accounts payable of Borrower;
- g. during any period of time the Facility Usage is equal to or greater than \$2,000,000, as soon as available, and in any event, within thirty (30) days after and as of the end of each calendar month, including the last such reporting period of each fiscal year of Borrower, agings of the accounts receivable and accounts payable of Borrower;
- h. simultaneously with the financial statements to be delivered to Bank pursuant to subsections (c) and (d) above, as applicable, a Borrowing Base Certificate substantially in the form attached hereto as Exhibit B;
- i. as soon as available, and in any event within ninety (90) days after the end of each fiscal year, a business and financial plan of Borrower, in form satisfactory to Bank, prepared by the chief financial officer of Borrower, setting forth financial projections and budget for Borrower for the fiscal year in which such plan is delivered to Bank;
- j. promptly upon their becoming available, copies of all financial statements, reports, notices and proxy statements sent by any Loan Party to its stockholders and all registration statements, periodic reports and other statements and schedules filed by any Loan Party with any securities exchange, the Securities and Exchange Commission or any

similar governmental authority; and

k. promptly, and in form and detail satisfactory to Bank, such other information as Bank may request from time to time.

4.4 FINANCIAL COVENANTS. Maintain all financial covenants set forth below (for purposes of the financial covenants, definitions for capitalized terms not otherwise defined in this Agreement follow the covenants):

TANGIBLE NET WORTH. Maintain a Tangible Net Worth at all times of not LESS than \$100,000,000.

QUICK RATIO. Maintain a Quick Ratio at all times of not LESS than 1.5 to 1.0.

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"AFFILIATE RECEIVABLES" shall mean, as of any time of determination, any amounts in respect of loans or advances owing to Borrower or another Loan Party from any of its Subsidiaries or Affiliates (other than Affiliates which are Guarantors of all Indebtedness) at such time.

"CURRENT LIABILITIES" shall mean, in respect of a Person and as of any applicable date of determination, all liabilities of such Person that should be classified as current in accordance with GAAP.

"QUICK RATIO" shall mean, with respect to any Person, and as to any applicable date of determination, the ratio of (i) the sum of all unrestricted cash of such Person plus all investments of such Person made in accordance with the investment policy of such Person that has been reviewed and approved by Bank prior to the date hereof plus all accounts receivable of such Person (in each case only to the extent such case, investments, or accounts receivable is not subject to a lien, pledge, mortgage or security interest, other than those in favor of Bank) to (ii) the sum of the Current Liabilities of such Person on such date plus the outstanding principal amount of the Indebtedness on such date.

"TANGIBLE NET WORTH" shall mean, with respect to any Person and as of any applicable date of determination, (a) the net book value of all assets of such Person (excluding Affiliate Receivables, patent rights, trademarks, trade names, franchises, copyrights, licenses, goodwill, and all other intangible assets of such Person), after all appropriate deductions in accordance with GAAP including, without limitation, reserves for doubtful receivables, obsolescence, depreciation and amortization, LESS (b) all Debt of such Person at such time.

4.5 FURTHER ASSURANCES; FINANCING STATEMENTS. Furnish Bank, at Borrower's cost and expense, upon Bank's request and in form satisfactory to Bank (and execute and deliver or cause to be executed and delivered), such additional pledges, assignments, mortgages, Lien instruments or other security instruments, consents, acknowledgments, subordinations and financing statements covering any or all of the Collateral required by Bank to secure any Indebtedness together with such other documents or instruments as Bank may require to effectuate more fully the purposes of any Loan Document.

4.6 INSURANCE. Maintain insurance coverage by insurers acceptable to Bank on its physical assets and against other business risks in such amounts and of such types as are customarily carried by companies similar in size and nature or as may otherwise be required by Bank, and in the event of acquisition of additional property, real or personal, or of the incurrence of additional risks of any nature, increase such insurance coverage in such manner and to such extent as prudent business judgment and present practice would dictate; and in the case of all policies covering property subject to any Loan Document or property in which the Bank shall have a Lien of any kind whatsoever, other than those policies protecting against casualty liabilities to strangers, all such insurance policies shall provide that the loss payable thereunder shall be payable to Borrower (or other Person providing Collateral) and Bank, with mortgagee's clauses in favor of and satisfactory to Bank for all such policies, and such policies shall also provide that they may not be canceled or changed without thirty (30) days' prior written notice to Bank. Upon the request of Bank, all of said policies, or copies thereof, including all endorsements thereon and those required hereunder, shall be deposited with Bank.

4.7 COMPLIANCE WITH ERISA. In the event that any Loan Party or any of its

Subsidiaries maintain(s) or establish(es) a Pension Plan subject to ERISA, (a) comply in all material respects with all requirements imposed by ERISA as presently in effect or hereafter promulgated, including, but not limited to, the minimum funding requirements thereof; (b) promptly notify Bank upon the occurrence of a "reportable event" or "prohibited transaction" within the meaning of ERISA, or that the PBGC or any Loan Party has instituted or will institute proceedings to terminate any Pension Plan, together with a copy of any proposed notice of such event which may be required to be filed with the PBGC; and (c) furnish to Bank (or cause the plan administrator to furnish Bank) a copy of the annual return (including all schedules and attachments) for each Pension Plan covered by ERISA, and filed with the Internal Revenue Service by any Loan Party not later than ten (10) days after such report has been so filed.

- 4.8 ENVIRONMENTAL COVENANTS. Comply with all applicable Environmental Laws, and maintain all permits, licenses and approvals required under applicable Environmental Laws, where the failure to do so could have a Material Adverse Effect. Promptly notify Bank, in writing, as soon as Borrower becomes aware of any condition or circumstance which makes any of the environmental representations or warranties set forth in this Agreement incomplete, incorrect or inaccurate in any material respect as of any date;

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and promptly provide to Bank, immediately upon receipt thereof, copies of any material correspondence, notice, pleading, citation, indictment, complaint, order, decree, or other document from any source asserting or alleging a violation of any Environmental Law by any Loan Party, or of any circumstance or condition which requires or may require, a financial contribution by any Loan Party, or a clean-up, removal, remedial action or other response by or on behalf of any Loan Party, under applicable Environmental Law, or which seeks damages or civil, criminal or punitive penalties from any Loan Party or any violation or alleged violation of any Environmental Law. Borrower hereby agrees to indemnify, defend and hold Bank, and any of Bank's past, present and future officers, directors, shareholders, employees, representatives and consultants, harmless from any and all claims, losses, damages, suits, penalties, costs, liabilities, obligations and expenses (including, without limitation, reasonable legal expenses and attorneys' fees, whether inside or outside counsel is used) incurred or arising out of any claim, loss or damage of any property, injuries to or death of any persons, contamination of or adverse effects on the environment, or other violation of any applicable Environmental Law, in any case, caused by any Loan Party or in any way related to any property owned or operated by any Loan Party or due to any acts of any Loan Party or any of its officers, directors, shareholders, employees, consultants and/or representatives INCLUDING ANY CLAIMS, LOSSES, DAMAGES, SUITS, PENALTIES, COSTS, LIABILITIES, OBLIGATIONS OR EXPENSES, RESULTING FROM BANK'S OWN NEGLIGENCE OR ARISING OUT OF ANY CLAIM OR THEORY OF STRICT LIABILITY; provided however, that the foregoing indemnification shall not be applicable, and Borrower shall not be liable for any such claims, losses, damages, suits, penalties, costs, liabilities, obligations or expenses, to the extent (but only to the extent) the same arise or result from any gross negligence or willful misconduct of Bank or any of its agents or employees.

- 4.9 BANK ACCOUNTS. Borrower will maintain with Bank all of its primary bank accounts, money market accounts, and similar accounts as additional security for the Indebtedness. Borrower may freely withdraw funds from such accounts with Bank and (subject to the other requirements hereof) may choose to invest such funds in investments other than bank accounts, money market or similar accounts, or certificates of deposit, it being understood that any such accounts maintained with Bank and any certificates of deposit purchased from Bank are not frozen or restricted (except as expressly provided therein or in any Loan Documents to which they are subject) or subject to any minimum balance requirements.

- 4.10 ACCOUNTS RECEIVABLE AUDIT. Within thirty (30) days of the first Revolving Loan made hereunder, permit Bank or its representatives to conduct an audit of Borrower's accounts receivable. Borrower will permit Bank or its representatives to conduct one audit of Borrower's accounts receivable in each calendar year; provided that, during the continuation of any Event of Default, Borrower will permit Bank to conduct one or more additional audits of Borrower's accounts receivable upon Bank's request. All audits conducted pursuant to this Section 4.10

shall be at Borrower's expense.

SECTION 5 . NEGATIVE COVENANTS

Borrower covenants and agrees that, until all instruments and agreements evidencing each and every loan, Letter of Credit and other financial accommodation by the Bank to the Borrower or any Loan Party are fully discharged and terminated, and thereafter, so long as any Indebtedness remains outstanding, it will not, and it will not allow any Loan Party within its control or under common control to, without the prior written consent of the Bank:

5.1 CAPITAL STRUCTURE; BUSINESS OBJECTS OR PURPOSE; MERGERS; ASSET DISPOSITION; ACQUISITIONS. Other than any repurchase, acquisition or redemption of any shares of its capital stock payable upon an employee's termination pursuant to its employee stock option, purchase acquire or redeem any of its equity ownership interests; or enter into any reorganization or recapitalization if such Loan Party is not obtaining new equity in connection with such reorganization or recapitalization; or reclassify its equity ownership interests; or make any material change in its capital structure or general business objects or purpose; or change its name, or enter into any merger or consolidation, whether or not the surviving entity thereunder; or sell, lease, transfer, relocate or dispose of all, substantially all, or any material part of its assets (whether in a single transaction or in a series of transactions); or purchase or otherwise acquire or become obligated for the purchase of all or substantially all of the assets or business interests of any Person or any shares of stock or other ownership interests of any Person or in any other manner effectuate or attempt to effectuate an expansion of present business by acquisition if either (a) the consideration paid by Borrower and the other Loan Parties in connection with such acquisition, when aggregated with all the consideration paid by Borrower and the other Loan Parties in connection with all other acquisitions made by the Loan Parties, exceeds \$30,000,000 or (b) the cash paid by Borrower and the other Loan Parties in connection with such acquisition, when aggregated with all cash paid by Borrower and the other Loan Parties in connection with all other acquisitions made by the Loan Parties, exceeds \$15,000,000.

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5.2 GUARANTIES. Guarantee, endorse, or otherwise become secondarily liable for or upon the obligations or Debt of others (whether directly or indirectly), except guaranties in favor of and satisfactory to Bank and endorsements for deposit or collection in the ordinary course of business.

5.3 DEBT. Become or remain obligated for any Debt, except: Indebtedness and other Debt from time to time outstanding and owing to Bank; current unsecured trade, utility or non-extraordinary accounts payable arising in the ordinary course of business; Subordinated Debt; purchase money indebtedness incurred for the purpose of purchasing or acquiring fixed assets, so long as the amount of such purchase money indebtedness incurred by Borrower and its Subsidiaries does not exceed five hundred thousand dollars (\$500,000), in the aggregate, for any fiscal year of Borrower; and Debt (including, without limitation, capitalized lease obligations) outstanding as of the date hereof if specifically disclosed in the most recent financial statements delivered to the Bank prior to the date hereof.

5.4 ENCUMBRANCES. Create, incur, assume or suffer to exist any Lien upon any of its property or assets, whether now owned or hereafter acquired, except for Permitted Encumbrances.

5.5 INVESTMENTS; EXTENSIONS OF CREDIT. Make or allow to remain outstanding any investment (whether such investment shall be of the character of investment in shares of stock, evidences of indebtedness or other securities or otherwise) in, or any loans, advances or extensions of credit to, any Person, other than (a) Borrower's current ownership interests in those Subsidiaries of Borrower, if any, which are specifically disclosed in the definition of Subsidiaries, and (b) any investment in direct obligations of the United States of America or any agency thereof, or in certificates of deposit issued by Bank, maintained consistent with Borrower's or such Subsidiary's business practices prior to the date hereof; provided, that no such investment shall mature more than one (1) year after the date when made or the issuance thereof, and (c) marketable, traded stock and other securities issued by entities organized under the laws of the United States or a

state thereof, and (d) acquisitions permitted pursuant to Section 5.1.

- 5.6 PENSION PLANS. Except in compliance with this Agreement, enter into, maintain, or make contribution to, directly or indirectly, any Pension Plan that is subject to ERISA.
- 5.7 SUBORDINATE INDEBTEDNESS. subordinate any indebtedness due to it from any Person to indebtedness of other creditors of such Person.
- 5.8 CAPITAL EXPENDITURES. Make Capital Expenditures or commit to make Capital Expenditures, in an aggregate amount that exceeds \$15,000,000 in any fiscal year. "CAPITAL EXPENDITURE" shall mean any expenditure by a Person for (a) an asset which will be used in a year or years subsequent to the year in which the expenditure is made and which asset is properly classified in relevant financial statements of such Person as equipment, real property, a fixed asset or a similar type of capitalized asset in accordance with GAAP or (b) an asset relating to or acquired in connection with an acquired business, and any and all acquisition costs related to (a) or (b) above.
- 5.9 DIVIDENDS. Declare or pay dividends on, or make any other distribution (whether by reduction of capital or otherwise) in respect of any shares of its capital stock or other ownership interests, except (a) dividends payable by a Subsidiary of Borrower to Borrower or by the Subsidiary of another Loan Party to such other Loan Party; (b) dividends payable solely in stock; and (c) the redemption, repurchase or acquisition of any shares of its capital stock permitted under Section 5.1.

SECTION 6. EVENTS OF DEFAULT

- 6.1 EVENTS OF DEFAULT. The occurrence or existence of any of the following conditions or events shall constitute an "Event of Default" hereunder:
- (a) non-payment of any principal, interest or other sums due upon the Indebtedness at such time the same becomes due or, if applicable, upon expiration of the grace period, if any;
 - (b) default in the observance or performance of any of the conditions, covenants or agreements of any Loan Party set forth in Section 4.3(a) or Section 5 of this Agreement and such default continues unremedied for a period of ten (10) days;
 - (c) default in the observance or performance (other than as referred to in subsections (a) or (b) above) of any of the conditions, covenants or agreements of any Loan Party set forth in this Agreement or any other Loan Document and such default continues unremedied for a period of ten (10) days after notice of such failure is given by Bank to Borrower;
 - (d) any representation or warranty made by any Loan Party in any Loan Document shall be untrue or incorrect in any material respect;
 - (e) any default or event of default, as the case may be, shall occur under any other Loan Document and shall continue beyond the applicable grace period, if any;
 - (f) any default by any Loan Party in the payment of any Debt in excess of \$500,000 (other than the Indebtedness), or in the observance or performance of any conditions, covenants or agreements related or given with respect thereto and, in each such case, continuation thereof beyond any applicable grace or cure period;
 - (g) the rendering of one or more judgments or decrees for the payment of money in excess of \$500,000, against any Loan Party, and such judgment(s) or decree(s) shall remain unvacated, unbanded or unstayed, by appeal or otherwise, for a period of sixty (60) consecutive days after the date of entry;
 - (h) sale or other disposition by any Loan Party of any substantial portion of its assets or property or voluntary suspension of the transaction of business by any Loan Party or the dissolution, termination of existence, insolvency, business failure or assignment for the benefit of creditors of or by any Loan Party, or commencement of any proceedings under any state or federal bankruptcy or insolvency law or laws for the relief of debtors by or against any Loan Party and the same is either initiated by or consented to by such Loan Party or otherwise remains undismissed for sixty (60) days, or the appointment of a receiver, trustee, court appointee, sequestrator or otherwise, for all or any substantial party of the property of any Loan Party, and the

same is not discharged within sixty (60) days; and

(i) any change in the management, ownership or control of Borrower, whether by reason of incapacity, death, resignation, termination or otherwise which, in Bank's sole judgment, could become a Material Adverse Effect;

6.2 REMEDIES UPON EVENT OF DEFAULT. Upon the occurrence and at any time during the existence or continuance of any Event of Default, but without impairing or otherwise limiting the Bank's right to demand payment of all or any portion of the Indebtedness which is payable on demand, at Bank's option, Bank may give notice to Borrower declaring all or any portion of the Indebtedness remaining unpaid and outstanding, whether under the notes evidencing the Indebtedness or otherwise, to be due and payable in full without presentation, demand, protest, notice of dishonor, notice of intent to accelerate, notice of acceleration or other notice of any kind, all of which are hereby expressly waived, whereupon all such Indebtedness shall immediately become due and payable. Furthermore, upon the occurrence of a Default or Event of Default and at any time during the existence or continuance of any Default or Event of Default, but without impairing or otherwise limiting the right of Bank, if reserved under any Loan Document, to make or withhold financial accommodations at its discretion, to the extent not yet disbursed, any commitment by Bank to make any further loans or, if applicable, issue any further Letters of Credit shall automatically terminate. The foregoing rights and remedies are in addition to any other rights, remedies and privileges Bank may otherwise have or which may be available to it, whether under this Agreement, any other Loan Document, by law, or otherwise.

6.3 WAIVER OF DEFAULTS. No Default or Event of Default shall be waived by Bank except in a written instrument specifying the scope and terms of such waiver and signed by an authorized officer of Bank, and such waiver shall be effective only for the specific time(s) and purpose(s) given. No single or partial exercise of any right, power or privilege hereunder, or any delay in the exercise thereof, shall preclude other or further exercise of Bank's rights. No waiver of any Default or Event of Default shall extend to any other or further Default or Event of Default. No forbearance on the part of Bank in enforcing any of Bank's rights or remedies under any Loan Document shall constitute a waiver of any of its rights or remedies. Borrower expressly agrees that this Section may not be waived or modified by Bank by course of performance, estoppel or otherwise.

SECTION 7. MISCELLANEOUS

7.1 GOVERNING LAW. Each Loan Document shall be deemed to have been delivered in and shall be governed by and construed and enforced in accordance with the laws of the State of Texas, except to the extent that the UCC, other personal property law or real property law of another jurisdiction where Collateral is located is applicable, and except to the extent expressed to the contrary in any Loan Document.

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7.2 COSTS AND EXPENSES. Borrower shall pay Bank, on demand, all costs and expenses, including, without limitation, reasonable attorneys' fees and legal expenses (whether inside or outside counsel is used), incurred by Bank in perfecting, revising, protecting or enforcing any of its rights or remedies against any Loan Party or any Collateral, or otherwise incurred by Bank in connection with any Default or Event of Default or the enforcement of the Loan Documents or the Indebtedness. Following Bank's demand upon Borrower for the payment of any such costs and expenses, and until the same are paid in full, the unpaid amount of such costs and expenses shall constitute Indebtedness and shall bear interest at the highest default rate of interest provided in any Loan Document.

7.3 SUCCESSORS AND ASSIGNS; PARTICIPATION. This Agreement shall be binding upon and shall inure to the benefit of Borrower and Bank and their respective successors and assigns. The foregoing shall not authorize any assignment or transfer by Borrower of any of its respective rights, duties or obligations hereunder, such assignments or transfers being expressly prohibited. Bank, however, may freely assign, whether by assignment, participation or otherwise, its rights and obligations hereunder, and is hereby authorized to disclose to any such assignee or participant (or proposed assignee or participant) any financial or

other information in its knowledge or possession regarding any Loan Party or the Indebtedness.

7.4 RELIANCE ON AND SURVIVAL OF VARIOUS PROVISIONS. All terms, covenants, agreements, representations and warranties of any Loan Party made in any Loan Document, or in any certificate, report, financial statement or other document furnished by or on behalf of any Loan Party in connection with any Loan Document, shall be deemed to have been relied upon by Bank, notwithstanding any investigation heretofore or hereafter made by Bank or on Bank's behalf, and those covenants and agreements of Borrower set forth in SECTION 4.8 hereof (together with any other indemnities of Borrower contained elsewhere in any Loan Document) shall survive the termination of this Agreement and the repayment in full of the Indebtedness.

7.5 COMPLETE AGREEMENT; CONFLICTS. This Agreement, the other Loan Documents, and any commitment letter previously issued by Bank with respect thereto (provided that in the event of any inconsistency or conflict between this Agreement and the other Loan Documents, on one hand, and such commitment letter, on the other hand, this Agreement and the Loan Documents shall control), contain the entire agreement of the parties thereto and supercede all prior agreements and understandings related to the subject matter hereof, and none of the parties shall be bound by anything not expressed in writing. In the event that, and to the extent that, any of the terms, conditions or provisions of any of the other Loan Documents are inconsistent with or in conflict with any of the terms, conditions or provisions of this Agreement, the applicable terms, conditions and provisions of this Agreement shall govern and control. Any amendments or modifications hereto shall be in writing signed by all parties.

7.6 COUNTERPARTS. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same agreement.

7.7 WAIVER OF JURY TRIAL. BANK AND BORROWER EACH ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED. EACH OF THEM, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT, WITH COUNSEL OF THEIR CHOICE, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT EITHER OF THEM MAY HAVE TO A TRIAL BY JURY IN ANY LITIGATION BASED UPON OR ARISING OUT OF ANY LOAN DOCUMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THE LOAN DOCUMENTS OR ANY COURSE OF CONDUCT, DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN), OR ACTION OF EITHER OF THEM. THESE PROVISIONS SHALL NOT BE DEEMED TO HAVE BEEN MODIFIED IN ANY RESPECT OR RELINQUISHED BY BANK OR BORROWER, EXCEPT BY A WRITTEN INSTRUMENT EXECUTED BY EACH OF THEM.

7.8 ORAL AGREEMENTS INEFFECTIVE. THIS AGREEMENT AND THE OTHER "LOAN AGREEMENTS" (AS DEFINED IN SECTION 26.02(A)(2) OF THE TEXAS BUSINESS & COMMERCE CODE, AS AMENDED) REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES, AND THIS AGREEMENT AND THE OTHER WRITTEN LOAN AGREEMENTS MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

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WITNESS the due execution hereof as of the day and year first above written.

COMERICA BANK - TEXAS

SILICON LABORATORIES INC.

By: /s/ Julie A. Smith

By: /s/ John W. McGovern

Name: Julie A. Smith

Name: John W. McGovern

Title: Vice President

Title: Chief Financial Officer

By: /s/ Navdeep Sooch

Name: Navdeep Sooch

Address: 504 Congress Avenue
Suite 320
Austin, Texas 78701
Attn: Julie Smith
Telefax No.: (512) 427-7120

Address: 4635 Boston Lane
Austin, Texas 78735
Attn: _____
Telefax No.: _____

EXHIBIT A

COMPLIANCE CERTIFICATE

Reference is made to that certain Credit Agreement between SILICON LABORATORIES INC. ("Borrower") and COMERICA BANK-TEXAS, dated as of September 5, 2001 (the "Credit Agreement"). The terms used herein shall have the same meanings as provided therefor in the Credit Agreement, unless the context hereof otherwise requires or provides.

The undersigned HEREBY CERTIFIES that he is the duly elected and qualified officer of Borrower holding the office set forth beneath his signature below, and as such is the chief financial officer of Borrower, AND DOES FURTHER CERTIFY, on behalf of Borrower that:

1. Attached hereto are complete and detailed consolidated financial statements of Borrower and the other Loan Parties as of, and for the last day of _____, _____ (the "Reporting Date"), which are accurate and complete (subject to normal year-end adjustments).

2. He has reviewed the Loan Documents, and that to the best of his knowledge as of the Reporting Date and the date hereof, no Event of Default existed or exists, except as set forth in Schedule I attached hereto. (If no Schedule I is attached, then such exception does not apply and no Event of Defaults exist).

3. Set forth below is the calculation of the financial covenants of the Credit Agreement determined as of the Reporting Date, which calculations have been made in accordance with the requirements of the Credit Agreement and which are true and correct in all respects:

TANGIBLE NET WORTH. MAINTAIN A TANGIBLE NET WORTH AT ALL TIMES, OF NOT LESS THAN \$100,000,000.

\$ _____

QUICK RATIO. MAINTAIN A QUICK RATIO OF NOT LESS THAN 1.5 TO 1.

_____ to 1.0

IN WITNESS WHEREOF, the undersigned has executed this Certificate on _____, _____.

Signature

Name:

Title:

EXHIBIT B
Accounts Receivable

Borrowing Base Certificate for Period Beginning: _____ and Ending _____ ("Current Period") Credit Agreement dated as of September 5, 2001 (the "Agreement") by and between Silicon Laboratories Inc.. ("Borrower") and Comerica Bank-Texas. Capitalized terms used and are otherwise defined herein have the meanings given them in the Agreement.

Accounts Receivable

1. Balance of Accounts as of the end of the Current Period

\$ _____

Ineligible Accounts as of the end of the Current Period: 2.

Accounts more than 90 days from invoice date

\$ _____

3. All of the Accounts of Account Debtor(s) if 25% of the dollar amount of all

Accounts of such Account Debtor(s) are more than 90 days from invoice date

\$ _____

4. That portion of Accounts of Account Debtor(s) (other than PC-Tel) in excess of 25% of the dollar amount of the total Accounts for the Current Period (Line 1), except to the extent such portions have previously been excluded under other provisions hereof.

\$ _____

5. That portion of Accounts of PC-Tel in excess of 50% of the total amount of the total Accounts for the

Current
Period
(Line 1),
except to
the extent
such
portions
have
previously
been
excluded
under other
provisions
hereof.

\$ _____

6.
Intercompany
and
Affiliate
Accounts

7.
Government
Accounts 8.
Accounts
subject to
any dispute
or set off.

9. Other
ineligible
Accounts

10. Total
Ineligible
Accounts
for the
Current
Period (Add
Lines 2
through 9)

\$ _____

11. Total
Eligible
Accounts
for the
Current
Period
(Line 1 -
Line 10)

\$ _____

12. Total
Domestic
Eligible
Accounts

\$ _____

13.
Multiplied
by 80% 14.
Total
Foreign
Eligible
Accounts

\$ _____

15.
Multiplied
by 90% 16.
Sum of 13
and 15
equals
Borrowing
Base of the
end of the
Current
Period 17.

Loan
balance per
last

Borrowing
Base Report

\$ _____

By: _____
Name: _____
Title: _____
Date: _____

[COMERICA LOGO] SECURITY AGREEMENT
(ALL ASSETS)

As of September 5, 2001, for value received, the undersigned ("Debtor") pledges, assigns and grants to Comerica Bank-Texas, a Texas banking association ("Bank"), whose address is P. O. Box 650282, Dallas, Texas 75265-0282, Attention: Julie Smith, Mail Code MC 6571, a continuing security interest and lien (any pledge, assignment, security interest or other lien arising hereunder is sometimes referred to herein as a "security interest") in the Collateral (as defined below) to secure payment when due, whether by stated maturity, demand, acceleration or otherwise, of all existing and future indebtedness ("Indebtedness") to the Bank of Debtor. Indebtedness includes without limit any and all obligations or liabilities of the Debtor to the Bank, whether absolute or contingent, direct or indirect, voluntary or involuntary, liquidated or unliquidated, joint or several, known or unknown, originally payable to the Bank or to a third party and subsequently acquired by the Bank including, without limitation, any late charges, loan fees or charges, and overdraft indebtedness, any and all obligations or liabilities for which the Debtor would otherwise be liable to the Bank were it not for the invalidity or unenforceability of them by reason of any bankruptcy, insolvency or other law, or for any other reason; any and all amendments, modifications, renewals and/or extensions of any of the above; all costs incurred by Bank in establishing, determining, continuing, or defending the validity or priority of any security interest, or in pursuing its rights and remedies under this Agreement or under any other agreement between Bank and Debtor or in connection with any proceeding involving Bank as a result of any financial accommodation to Borrower and/or Debtor; and all other costs of collecting Indebtedness, including without limit attorneys' fees. Debtor agrees to pay Bank all such costs incurred by the Bank, immediately upon demand, and until paid all costs shall bear interest at the highest per annum rate applicable to any of the Indebtedness, but not in excess of the maximum rate permitted by law. Any reference in this Agreement to attorneys' fees shall be deemed a reference to reasonable fees, costs, and expenses of both in-house and outside counsel and paralegals, whether inside or outside counsel is used, whether or not a suit or action is instituted, and to court costs if a suit or action is instituted, and whether attorneys' fees or court costs are incurred at the trial court level, on appeal, in a bankruptcy, administrative or probate proceeding or otherwise.

Debtor further covenants, agrees, represents and warrants as follows:

1. COLLATERAL shall mean all of the following property Debtor now or later owns or has an interest in, wherever located:
 - (a) all Accounts Receivable (for purposes of this Agreement, "Accounts Receivable" consists of all accounts, general intangibles, chattel paper (including without limit electronic chattel paper and tangible chattel paper), contract rights, deposit accounts, documents, instruments and rights to payment evidenced by chattel paper, documents or instruments, health care insurance receivables, commercial tort claims, letters of credit, letter of credit rights, supporting obligations, and rights to payment for money or funds advanced or sold),
 - (b) all Inventory,
 - (c) all Equipment and Fixtures,
 - (d) all goods, instruments, documents, policies and certificates of insurance, deposit accounts, money, investment property or other property (except real property which is not a fixture) which are now or later in possession or control of Bank, or as to which Bank now or later controls possession by documents or otherwise, and
 - (e) all additions, attachments, accessions, parts, replacements, substitutions, renewals, interest, dividends, distributions, rights of any kind (including but not limited to stock splits, stock rights, voting and preferential rights), products, and proceeds of or pertaining to the above including, without limit, cash or other property which were proceeds and are recovered by a bankruptcy trustee or otherwise as a preferential transfer by Debtor.

In the definition of Collateral, a reference to a type of collateral shall not be limited by a separate reference to a more specific or

narrower type of that collateral. "Collateral" shall EXCLUDE intellectual property. Intellectual property includes "Proprietary Information". "Proprietary Information" shall mean trade secrets, confidential knowledge, data, or any other proprietary information of the Debtor and each of its subsidiaries or affiliated companies. By way of illustration but not limitation, "Proprietary Information" includes (a) inventions, trade secrets, ideas, concepts, processes, formulas, data, lists, software programs, all other works of authorship, mask works, proprietary test tooling, know-how, improvements, discoveries, developments, designs, and techniques relating to the business or proposed business of the Debtor whether or not any of the foregoing is or are patentable, copyrightable, or registrable under any intellectual property laws and (b) information owned by the Debtor or licensed from third parties regarding plans for research, development, products, services, marketing and selling, business plans, budgets and unpublished financial statements, licenses, prices and costs, suppliers, customers, customer lists (except to the extent necessary for Bank to perfect or exercise its lien on Debtor's Accounts Receivable), information regarding the skills and compensation of other employees of the Debtor and (c) intellectual property of third parties in Debtor's possession. Notwithstanding anything in this Security Agreement, the usage of the terms "rights of any kind" or "general intangibles" will not serve to diminish to exclusion of Debtor's Intellectual Property rights from the definition of "Collateral."

2. WARRANTIES, COVENANTS AND AGREEMENTS. Debtor warrants, covenants and agrees as follows:

- 2.1 Debtor shall furnish to Bank, in form and at intervals as Bank may request, any information Bank may reasonably request and allow Bank to examine, inspect, and copy any of Debtor's books and records. Debtor shall, at the request of Bank, mark its records and the Collateral to clearly indicate the security interest of Bank under this Agreement.
- 2.2 At the time any Collateral becomes, or is represented to be, subject to a security interest in favor of Bank, Debtor shall be deemed to have warranted that (a) Debtor is the lawful owner of the Collateral and has the right and authority to subject it to a security interest granted to Bank; (b) none of the Collateral is subject to any security interest other than that in favor of Bank; (c) there are no financing statements on file, other than in favor of Bank; (d) no person, other than Bank, has possession or control (as defined in the Uniform Commercial Code) of any Collateral of such nature that perfection of a security interest may be accomplished by control; and (e) Debtor acquired its rights in the Collateral in the ordinary course of its business.
- 2.3 Debtor will keep the Collateral free at all times from all claims, liens, security interests and encumbrances other than those in favor of Bank. Debtor will not, without the prior written consent of Bank, sell, transfer, lease or grant control to any person other than Bank over, or permit to be sold, transferred, leased or controlled (by a person other than Bank), any or all of the Collateral, except for Inventory in the ordinary course of its business and will not return any Inventory to its supplier. Bank or its representatives may at all reasonable times inspect the Collateral and may enter upon all premises where the Collateral is kept or might be located.
- 2.4 Debtor will do all acts and will execute or cause to be executed all writings requested by Bank to establish, maintain and continue an exclusive, perfected and first security interest of Bank in the Collateral. Debtor agrees that Bank has no obligation to acquire or perfect any lien on or security interest in any asset(s), whether realty or personalty, to secure payment of the Indebtedness, and Debtor is not relying upon assets in which the Bank may have a lien or security interest for payment of the Indebtedness.
- 2.5 Debtor will pay within the time that they can be paid without interest or penalty all taxes, assessments and similar charges which at any time are or may become a lien, charge, or encumbrance upon any Collateral, except to the extent contested in good faith and bonded in a manner satisfactory to Bank. If Debtor fails to pay any of these taxes, assessments, or other charges in the time provided above, Bank has the option (but not the obligation) to do so, and Debtor agrees to repay all amounts so expended by Bank immediately

upon demand, together with interest at the highest lawful default rate which could be charged by Bank on any Indebtedness.

2.6 Debtor will keep the Collateral in good condition and will protect it from loss, damage, or deterioration from any cause. Debtor has and will maintain at all times (a) with respect to the Collateral, insurance under an "all risk" policy against fire and other risks customarily insured against, and (b) public liability insurance and other insurance as may be required by law or reasonably required by Bank, all of which insurance shall be in amount, form and content, and written by companies as may be satisfactory to Bank, containing a lender's loss payable endorsement acceptable to Bank. Debtor will deliver to Bank immediately upon demand evidence satisfactory to Bank that the required insurance has been procured. If Debtor fails to maintain satisfactory insurance, Bank has the option (but not the obligation) to do so and Debtor agrees to repay all amounts so expended by Bank immediately upon demand, together with interest at the highest lawful default rate which could be charged by Bank on any Indebtedness. Notwithstanding the foregoing, Borrower is under no obligation to obtain foreign accounts receivable credit insurance.

2.7 Debtor will do all commercially reasonable acts and will execute all writings requested by Bank to perform, enforce performance of, and collect all Accounts Receivable. Debtor shall neither make nor permit any modification, compromise or substitution for any Account Receivable without the prior written consent of Bank. Debtor shall, at Bank's request, arrange for verification of Accounts Receivable directly with account debtors or by other methods acceptable to Bank.

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2.8 Debtor at all times shall be in strict compliance with all applicable laws, including without limit any laws, ordinances, directives, orders, statutes, or regulations an object of which is to regulate or improve health, safety, or the environment ("Environmental Laws").

2.9 If Bank, acting in its sole discretion, redelivers Collateral to Debtor or Debtor's designee for the purpose of (a) the ultimate sale or exchange thereof; or (b) presentation, collection, renewal, or registration of transfer thereof; or (c) loading, unloading, storing, shipping, transshipping, manufacturing, processing or otherwise dealing with it preliminary to sale or exchange; such redelivery shall be in trust for the benefit of Bank and shall not constitute a release of Bank's security interest in it or in the proceeds or products of it unless Bank specifically so agrees in writing. If Debtor requests any such redelivery, Debtor will deliver with such request a duly executed financing statement in form and substance satisfactory to Bank. Any proceeds of Collateral coming into Debtor's possession as a result of any such redelivery shall be held in trust for Bank and immediately delivered to Bank for application on the Indebtedness. Bank may (in its sole discretion) deliver any or all of the Collateral to Debtor, and such delivery by Bank shall discharge Bank from all liability or responsibility for such Collateral. Bank, at its option, may require delivery of any Collateral to Bank at any time with such endorsements or assignments of the Collateral as Bank may request.

2.10 At any time and without notice, Bank may (a) cause any or all of the Collateral to be transferred to its name or to the name of its nominee, provided that any such nominee is not a competitor of Debtor not normally in the business of serving as a collateral trustee or related activities; (b) receive or collect by legal proceedings or otherwise all dividends, interest, principal payments and other sums and all other distributions at any time payable or receivable on account of the Collateral, and hold the same as Collateral, or apply the same to the Indebtedness, the manner and distribution of the application to be in the sole discretion of Bank; (c) enter into any extension, subordination, reorganization, deposit, merger or consolidation agreement or any other agreement

relating to or affecting the Collateral, and deposit or surrender control of the Collateral, and accept other property in exchange for the Collateral and hold or apply the property or money so received pursuant to this Agreement; and (d) take such actions in its own name or in Debtor's name as Bank, in its sole discretion, deems necessary or appropriate to establish exclusive control (as defined in the Uniform Commercial Code) over any Collateral of such nature that perfection of the Bank's security interest may be accomplished by control.

2.11 Bank may assign any of the Indebtedness and deliver any or all of the Collateral to its assignee, who then shall have with respect to Collateral so delivered all the rights and powers of Bank under this Agreement, and after that Bank shall be fully discharged from all liability and responsibility with respect to Collateral so delivered.

2.12 Debtor shall defend, indemnify and hold harmless Bank, its employees, agents, shareholders, affiliates, officers, and directors from and against any and all claims, damages, fines, expenses, liabilities or causes of action of whatever kind, including without limit consultant fees, legal expenses, and attorneys' fees, suffered by any of them as a direct or indirect result of any actual or asserted violation of any law, including, without limit, Environmental Laws, or of any remediation relating to any property required by any law, including without limit Environmental Laws, INCLUDING ANY CLAIMS, DAMAGES, FINES, EXPENSES, LIABILITIES OR CAUSES OF ACTION OF WHATEVER KIND RESULTING FROM BANK'S OWN NEGLIGENCE OR ARISING OUT OF ANY CLAIM OR THEORY OF STRICT LIABILITY, except and to the extent (but only to the extent) caused by Bank's gross negligence or wilful misconduct.

3. COLLECTION OF PROCEEDS.

3.1 Debtor agrees to collect and enforce payment of all Collateral until Bank shall direct Debtor to the contrary. Immediately upon notice to Debtor by Bank and at all times after that, Debtor agrees to fully and promptly cooperate and assist Bank in the collection and enforcement of all Collateral and to hold in trust for Bank all payments received in connection with Collateral and from the sale, lease or other disposition of any Collateral, all rights by way of suretyship or guaranty and all rights in the nature of a lien or security interest which Debtor now or later has regarding Collateral. Immediately upon and after such notice, Debtor agrees to (a) endorse to Bank and immediately deliver to Bank all payments received on Collateral or from the sale, lease or other disposition of any Collateral or arising from any other rights or interests of Debtor in the Collateral, in the form received by Debtor without commingling with any other funds, and (b) immediately deliver to Bank all property in Debtor's possession or later coming into Debtor's possession through enforcement of Debtor's rights or interests in the Collateral. Debtor irrevocably authorizes Bank or any Bank employee or agent to endorse the name of Debtor upon any checks or other items which are received in payment for any Collateral, and to do any and all things necessary in order to reduce these items to money. Bank shall have no duty as to the collection or protection of Collateral or the proceeds of it, or as to the preservation of any related rights, beyond the use of reasonable care in the custody and preservation of Collateral in the possession of Bank. Debtor agrees to take all steps necessary to preserve rights against prior parties with respect to the Collateral. Nothing in this Section 3.1 shall be deemed a consent by Bank to any sale, lease or other disposition of any Collateral.

3.2 Debtor agrees that immediately upon Bank's request, following the occurrence of an Event of Default, the Indebtedness shall be on a "remittance basis" as follows: Debtor shall at its sole expense establish and maintain (and Bank, at Bank's option may establish and maintain at Debtor's expense): (a) an United States Post Office lock box (the "Lock Box"), to which Bank shall have exclusive access and control. Debtor expressly authorizes Bank, from time to time, to remove contents from the Lock Box, for disposition in accordance with this Agreement. Debtor agrees to notify all account debtors and other parties obligated to Debtor that all payments made to Debtor (other than payments by electronic funds transfer)

shall be remitted, for the credit of Debtor, to the Lock Box, and Debtor shall include a like statement on all invoices; and (b) a non-interest bearing deposit account with Bank which shall be titled as designated by Bank (the "Cash Collateral Account") to which Bank shall have exclusive access and control. Debtor agrees to notify all account debtors and other parties obligated to Debtor that all payments made to Debtor by electronic funds transfer shall be remitted to the Cash Collateral Account, and Debtor, at Bank's request, shall include a like statement on all invoices. Debtor shall execute all documents and authorizations as required by Bank to establish and maintain the Lock Box and the Cash Collateral Account.

- 3.3 All items or amounts which are remitted to the Lock Box, to the Cash Collateral Account, or otherwise delivered by or for the benefit of Debtor to Bank on account of partial or full payment of, or with respect to, any Collateral shall, at Bank's option, (a) be applied to the payment of the Indebtedness, whether then due or not, in such order or at such time of application as Bank may determine in its sole discretion, or, (b) be deposited to the Cash Collateral Account. Debtor agrees that Bank shall not be liable for any loss or damage which Debtor may suffer as a result of Bank's processing of items or its exercise of any other rights or remedies under this Agreement, including without limitation indirect, special or consequential damages, loss of revenues or profits, or any claim, demand or action by any third party arising out of or in connection with the processing of items or the exercise of any other rights or remedies under this Agreement. Debtor agrees to indemnify and hold Bank harmless from and against all such third party claims, demands or actions, and all related expenses or liabilities, including, without limitation, attorneys' fees and INCLUDING CLAIMS, DAMAGES, FINES, EXPENSES, LIABILITIES OR CAUSES OF ACTION OF WHATEVER KIND RESULTING FROM BANK'S OWN NEGLIGENCE OR ARISING OUT OF ANY CLAIM OR THEORY OF STRICT LIABILITY except to the extent (but only to the extent) caused by Bank's gross negligence or willful misconduct.

4. DEFAULTS, ENFORCEMENT AND APPLICATION OF PROCEEDS.

- 4.1 Upon the occurrence of any Event of Default (as defined in the Credit Agreement of even date herewith between, Debtor and Bank, as from time to time amended modified or restated), Debtor shall be in default under this Agreement.

- 4.2 Upon the occurrence of any Event of Default, Bank may at its discretion and without prior notice to Debtor declare any or all of the Indebtedness to be immediately due and payable, and shall have and may exercise any right or remedy available to it including, without limitation, any one or more of the following rights and remedies:

- (a) Exercise all the rights and remedies upon default, in foreclosure and otherwise, available to secured parties under the provisions of the Uniform Commercial Code and other applicable law;
- (b) Institute legal proceedings to foreclose upon the lien and security interest granted by this Agreement, to recover judgment for all amounts then due and owing as Indebtedness, and to collect the same out of any Collateral or the proceeds of any sale of it;
- (c) Institute legal proceedings for the sale, under the judgment or decree of any court of competent jurisdiction, of any or all Collateral; and/or
- (d) Personally or by agents, attorneys, or appointment of a receiver, enter upon any premises where Collateral may then be located, and take possession of all or any of it and/or render it unusable; and without being responsible for loss or damage to such Collateral, hold, operate, sell, lease, or dispose of all or any Collateral at one or more public or private sales, leaseings or other dispositions, at places and times and on terms and conditions as Bank may deem fit, without any previous demand or advertisement; and except as provided in this Agreement, all notice of sale, lease or other disposition, and advertisement, and other notice or demand, any right or equity of redemption, and any obligation of a prospective purchaser or lessee to inquire as to the power and

authority of Bank to sell, lease, or otherwise dispose of the Collateral or as to the application by Bank of the proceeds of sale or otherwise, which would otherwise be required by, or available to Debtor under, applicable law are expressly waived by Debtor to the fullest extent permitted.

2

At any sale pursuant to this Section 4.2, whether under the power of sale, by virtue of judicial proceedings or otherwise, it shall not be necessary for Bank or a public officer under order of a court to have present physical or constructive possession of Collateral to be sold. The recitals contained in any conveyances and receipts made and given by Bank or the public officer to any purchaser at any sale made pursuant to this Agreement shall, to the extent permitted by applicable law, conclusively establish the truth and accuracy of the matters stated (including, without limit, as to the amounts of the principal of and interest on the Indebtedness, the accrual and nonpayment of it and advertisement and conduct of the sale); and all prerequisites to the sale shall be presumed to have been satisfied and performed. Upon any sale of any Collateral, the receipt of the officer making the sale under judicial proceedings or of Bank shall be sufficient discharge to the purchaser for the purchase money, and the purchaser shall not be obligated to see to the application of the money. Any sale of any Collateral under this Agreement shall be a perpetual bar against Debtor with respect to that Collateral. At any sale or other disposition of the Collateral pursuant to this Section 4.2, Bank disclaims all warranties which would otherwise be given under the Uniform Commercial Code, including without limit a disclaimer of any warranty relating to title, possession, quiet enjoyment or the like, and Bank may communicate these disclaimers to a purchaser at such disposition. This disclaimer of warranties will not render the sale commercially unreasonable.

- 4.3 Debtor shall at the request of Bank, notify the account debtors or obligors of Bank's security interest in the Collateral and direct payment of it to Bank. Bank may, itself, upon the occurrence of any Event of Default so notify and direct any account debtor or obligor. At the request of Bank, whether or not an Event of Default shall have occurred, Debtor shall immediately take such actions as the Bank shall request to establish exclusive control (as defined in the Uniform Commercial Code) by Bank over any Collateral which is of such a nature that perfection of a security interest may be accomplished by control.
- 4.4 The proceeds of any sale or other disposition of Collateral authorized by this Agreement shall be applied by Bank in such order as the Bank, in its discretion, deems appropriate including, without limitation, the following order: first upon all expenses authorized by the Uniform Commercial Code and all reasonable attorneys' fees and legal expenses incurred by Bank; the balance of the proceeds of the sale or other disposition shall be applied in the payment of the Indebtedness, first to interest, then to principal, then to remaining Indebtedness and the surplus, if any, shall be paid over to Debtor or to such other person(s) as may be entitled to it under applicable law. Debtor shall remain liable for any deficiency, which it shall pay to Bank immediately upon demand. Debtor agrees that Secured Party shall be under no obligation to accept any noncash proceeds in connection with any sale or disposition of Collateral unless failure to do so would be commercially unreasonable. If Secured Party agrees in its sole discretion to accept noncash proceeds (unless the failure to do so would be commercially unreasonable), Secured Party may ascribe any commercially reasonable value to such proceeds. Without limiting the foregoing, Secured Party may apply any discount factor in determining the present value of proceeds to be received in the future or may elect to apply proceeds to be received in the future only as and when such proceeds are actually received in cash by Secured Party.

- 4.5 Nothing in this Agreement is intended, nor shall it be construed, to preclude Bank from pursuing any other remedy provided by law or in equity for the collection of the Indebtedness or for the recovery of any other sum to which Bank may be entitled for the breach of this Agreement by Debtor. Nothing in this Agreement shall reduce or release in any way any rights or security interests of Bank contained in any existing agreement between Debtor and Bank.
- 4.6 No waiver of default or consent to any act by Debtor shall be effective unless in writing and signed by an authorized officer of Bank. No waiver of any default or forbearance on the part of Bank in enforcing any of its rights under this Agreement shall operate as a waiver of any other default or of the same default on a future occasion or of any rights.
- 4.7 Debtor (a) irrevocably appoints Bank or any agent of Bank (which appointment is coupled with an interest) the true and lawful attorney of Debtor (with full power of substitution) in the name, place and stead of, and at the expense of, Debtor and (b) authorizes Bank or any agent of Bank, in its own name, at Debtor's expense, to do any of the following, as Bank, in its sole discretion, deems appropriate:
- (i) to demand, receive, sue for, and give receipts or acquittances for any moneys due or to become due on any Collateral (including, without limit, to draft against Collateral) and to endorse any item representing any payment on or proceeds of the Collateral;
 - (ii) to execute and file in the name of and on behalf of Debtor all financing statements or other filings or Collateral control agreements deemed necessary or desirable by Bank to evidence, perfect, or continue the security interests granted in this Agreement; and
 - (iii) to do and perform any act on behalf of Debtor permitted or required under this Agreement.
- 4.8 Upon the occurrence of an Event of Default, Debtor also agrees, upon request of Bank, to assemble the Collateral and make it available to Bank at any place designated by Bank which is reasonably convenient to Bank and Debtor.
- 4.9 The following shall be the basis for any finder of fact's determination of the value of any Collateral which is the subject matter of a disposition giving rise to a calculation of any surplus or deficiency under Section 9.615 (f) of the Uniform Commercial Code (a) the Collateral which is the subject matter of the disposition shall be valued in an "as is" condition as of the date of the disposition, without any assumption or expectation that such Collateral will be repaired or improved in any manner; (b) the valuation shall be based upon an assumption that the transferee of such Collateral desires a resale of the Collateral for cash promptly (but no later than 30 days) following the disposition; (c) all reasonable closing costs customarily borne by the seller in commercial sales transactions relating to property similar to such Collateral shall be deducted including, without limitation, brokerage commissions, tax prorations, attorneys' fees, whether inside or outside counsel is used, and marketing costs; (d) the value of the Collateral which is the subject matter of the disposition shall be further discounted to account for any estimated holding costs associated with maintaining such Collateral pending sale (to the extent not accounted for in (c) above), and other maintenance, operational and ownership expenses; and (e) any expert opinion testimony given or considered in connection with a determination of the value of such Collateral must be given by persons having at least 5 years experience in appraising property similar to the Collateral and who have conducted and prepared a complete written appraisal of such Collateral taking into consideration the factors set forth above. The "value" of any such Collateral shall be a factor in determining the amount of proceeds which would have been realized in a disposition to a transferee other than a secured party, a person related to a secured party or a secondary obligor under Section 9-615(f) of the Uniform Commercial Code.

5. MISCELLANEOUS.

- 5.1 Until Bank is advised in writing by Debtor to the contrary, all notices, requests and demands required under this Agreement or by law shall be given to, or made upon, Debtor at the first address indicated in Section 5.15 below.
- 5.2 Debtor will give Bank not less than 30 days (or such longer period of time as is reasonable under the particular circumstances) prior written notice of all contemplated changes in Debtor's name, location, chief executive office, principal place of business, and/or location of any Collateral, but the giving of this notice shall not cure any Event of Default caused by this change.
- 5.3 Bank assumes no duty of performance or other responsibility under any contracts contained within the Collateral.
- 5.4 Bank has the right to sell, assign, transfer, negotiate or grant participations or any interest in, any or all of the Indebtedness and any related obligations, including without limit this Agreement. In connection with the above, but without limiting its ability to make other disclosures to the full extent allowable, Bank may disclose all documents and information which Bank now or later has relating to Debtor, the Indebtedness or this Agreement, however obtained. Debtor further agrees that Bank may provide information relating to this Agreement or relating to Debtor or the Indebtedness to the Bank's parent, affiliates, subsidiaries, and service providers.
- 5.5 In addition to Bank's other rights, any indebtedness owing from Bank to Debtor can be set off and applied by Bank on any Indebtedness at any time(s) either before or after maturity or demand without notice to anyone. Any such action shall not constitute acceptance of collateral in discharge of any portion of the Indebtedness.
- 5.6 Debtor, to the extent not expressly prohibited by applicable law, waives any right to require the Bank to: (a) proceed against any person or property; (b) give notice of the terms, time and place of any public or private sale of personal property security held from Borrower or Debtor or any other person, or otherwise comply with the provisions of Section 9.611 or 9.621 of the Uniform Commercial Code; or (c) pursue any other remedy in the Bank's power. Debtor waives notice of acceptance of this Agreement and presentment, demand, protest, notice of protest, dishonor, notice of dishonor, notice of default, notice of intent to accelerate or demand payment or notice of acceleration of any Indebtedness, any and all other notices to which the undersigned might otherwise be entitled, and diligence in collecting any Indebtedness, and agree(s) that the Bank may, once or any number of times, modify the terms of any Indebtedness, compromise, extend, increase, accelerate, renew or forbear to enforce payment of any or all Indebtedness, or permit Borrower to incur additional Indebtedness, all without notice to Debtor and without affecting in any manner the unconditional obligation of Debtor under this Agreement. Debtor unconditionally and irrevocably waives each and every defense and setoff of any nature which, under principles of guaranty or otherwise, would operate to impair or diminish in any way the obligation of Debtor under this Agreement, and acknowledges that such waiver is by this reference incorporated into each security agreement, collateral assignment, pledge and/or other document from Debtor now or later securing the Indebtedness, and acknowledges that as of the date of this Agreement no such defense or setoff exists.
- 5.7 In the event that applicable law shall obligate Bank to give prior notice to Debtor of any action to be taken under this Agreement, Debtor agrees that a written notice given to Debtor at least ten days before the date of the act shall be reasonable notice of the act and, specifically, reasonable notification of the time and place of any public sale or of the time after which any private sale, lease, or other disposition is to

be made, unless a shorter notice period is reasonable under the circumstances. A notice shall be deemed to be given under this Agreement when delivered to Debtor or when placed in an envelope addressed to Debtor and deposited, with postage prepaid, in a post office or official depository under the exclusive care and custody of the United States Postal Service or delivered to an overnight courier. The mailing shall be by overnight courier, certified, or first class mail.

- 5.8 Notwithstanding any prior revocation, termination, surrender, or discharge of this Agreement in whole or in part, the effectiveness of this Agreement shall automatically continue or be reinstated in the event that any payment received or credit given by Bank in respect of the Indebtedness is returned, disgorged, or rescinded under any applicable law, including, without limitation, bankruptcy or insolvency laws, in which case this Agreement, shall be enforceable against Debtor as if the returned, disgorged, or rescinded payment or credit had not been received or given by Bank, and whether or not Bank relied upon this payment or credit or changed its position as a consequence of it. In the event of continuation or reinstatement of this Agreement, Debtor agrees upon demand by Bank to execute and deliver to Bank those documents which Bank determines are appropriate to further evidence (in the public records or otherwise) this continuation or reinstatement, although the failure of Debtor to do so shall not affect in any way the reinstatement or continuation.
- 5.9 This Agreement and all the rights and remedies of Bank under this Agreement shall inure to the benefit of Bank's successors and assigns and to any other holder who derives from Bank title to or an interest in the Indebtedness or any portion of it, and shall bind Debtor and the heirs, legal representatives, successors, and assigns of Debtor. Nothing in this Section 5.9 is deemed a consent by Bank to any assignment by Debtor.
- 5.10 If there is more than one Debtor, all undertakings, warranties and covenants made by Debtor and all rights, powers and authorities given to or conferred upon Bank are made or given jointly and severally.
- 5.11 Except as otherwise expressly provided in this Agreement, all terms in this Agreement which are defined in the Uniform Commercial Code shall have the meanings assigned to them in Article 9 (or, absent definition in Article 9, in any other Article) of the Uniform Commercial Code, as those meanings may be amended, revised or replaced from time to time. "Uniform Commercial Code" means the Texas Business and Commerce Code as amended, revised or replaced from time to time. Notwithstanding the foregoing, the parties intend that the terms used herein which are defined in the Uniform Commercial Code have, at all times, the broadest and most inclusive meanings possible. Accordingly, if the Uniform Commercial Code shall in the future be amended or held by a court to define any term used herein more broadly or inclusively than the Uniform Commercial Code in effect on the date of this Agreement, then such term, as used herein, shall be given such broadened meaning. If the Uniform Commercial Code shall in the future be amended or held by a court to define any term used herein more narrowly, or less inclusively, than the Uniform Commercial Code in effect on the date of this Agreement, such amendment or holding shall be disregarded in defining terms used in this Agreement.
- 5.12 No single or partial exercise, or delay in the exercise, of any right or power under this Agreement, shall preclude other or further exercise of the rights and powers under this Agreement. The unenforceability of any provision of this Agreement shall not affect the enforceability of the remainder of this Agreement. This Agreement constitutes the entire agreement of Debtor and Bank with respect to the subject matter of this Agreement. No amendment or modification of this Agreement shall be effective unless the same shall be in writing and signed by Debtor and an authorized officer of Bank. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF TEXAS,

5.13 To the extent that any of the Indebtedness is payable upon demand, nothing contained in this Agreement shall modify the terms and conditions of that Indebtedness nor shall anything contained in this Agreement prevent Bank from making demand, without notice and with or without reason, for immediate payment of any or all of that Indebtedness at any time(s), whether or not an Event of Default has occurred.

5.14 Debtor represents and warrants that Debtor's exact name is the name set forth in this Agreement. Debtor further represents and warrants the following and agrees that Debtor is, and at all times shall be, located in the following place :

Debtor is a registered organization which is organized under the laws of one of the states comprising the United States (e.g. corporation, limited partnership, registered limited liability partnership or limited liability company), and Debtor is located (as determined pursuant to the Uniform Commercial Code) in the state under the laws of which it was organized, which is (street address, state and county or parish): Delaware.

If Collateral is located at other than the address specified above, such Collateral is located and shall be maintained at

Lantana Bldg. 1 and Lantana Bldg. 2,, 7000 W. Wm. Cannon, Suite 210

STREET ADDRESS

Austin TX 78735

CITY STATE ZIP CODE COUNTY

Collateral shall be maintained only at the locations identified in this Section 5.14.

5.15 A carbon, photographic or other reproduction of this Agreement shall be sufficient as a financing statement under the Uniform Commercial Code and may be filed by Bank in any filing office.

5.16 This Agreement shall be terminated only by the filing of a termination statement in accordance with the applicable provisions of the Uniform Commercial Code, but the obligations contained in Section 2.12 of this Agreement shall survive termination.

5.17 Debtor agrees to reimburse the Bank upon demand for any and all costs and expenses (including, without limit, court costs, legal expenses and reasonable attorneys' fees, whether inside or outside counsel is used, whether or not suit is instituted and, if suit is instituted, whether at the trial court level, appellate level, in a bankruptcy, probate or administrative proceeding or otherwise) incurred in enforcing or attempting to enforce this Agreement or in exercising or attempting to exercise any right or remedy under this Agreement or incurred in any other matter or proceeding relating to this Security Agreement.

6. DEBTOR AND BANK ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED. EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR CHOICE, KNOWINGLY AND VOLUNTARILY, AND FOR THEIR MUTUAL BENEFIT WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THE PERFORMANCE OR ENFORCEMENT OF, OR IN ANY WAY RELATED TO, THIS AGREEMENT OR THE INDEBTEDNESS.

7. THIS IS A TEXAS SPECIFIC PROVISION: THIS WRITTEN LOAN AGREEMENT (AS DEFINED BY SECTION 26.02 OF THE TEXAS BUSINESS AND COMMERCE CODE) REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

8. SPECIAL PROVISIONS APPLICABLE TO THIS AGREEMENT. (*NONE, IF LEFT BLANK)

DEBTOR:

Silicon Laboratories Inc.

Debtor Name Typed/Printed

By: /s/ Navdeep Sooch

Signature of: Navdeep Sooch

Its: Chief Executive Officer

Title (If applicable)

By: /s/ John W. McGovern

Signature of: John W. McGovern

Its: Chief Financial Officer

Title (If applicable)

BANK:

COMERICA BANK-TEXAS, a Texas
banking association

By: /s/ Julie A. Smith

Signature of: Julie A. Smith

Its: Vice President

Title (If applicable)

[COMERICA LOGO] ADVANCE FORMULA AGREEMENT

=====

As of September 5, 2001, this Agreement is made between SILICON LABORATORIES INC. ("Borrower") and COMERICA BANK-TEXAS, a Texas banking association ("Bank").

For and in consideration of the loans and other credit which Borrower may now or hereafter obtain or request from Bank pursuant to the Credit Agreement of even date herewith between Borrower and Bank (as from time to time amended, modified restated, the "Credit Agreement") and which are secured pursuant to the Security Agreement of even date herewith executed by Borrower in favor of the Bank, and for other good and valuable consideration, Bank and Borrower agree as follows:

1. REVOLVING LOANS. The Revolving Loans (as defined in the Credit Agreement) which Bank may now or hereafter extend to Borrower are subject to the limitations of this Agreement and to the conditions and limitations of the Credit Agreement.
2. ADVANCE FORMULA. Borrower warrants and agrees that Borrower's the Facility Usage (as defined in the Credit Agreement) shall never exceed the lesser of \$5,000,000 or the sum of:
 - (a) eighty percent (80%) of the Domestic Eligible Accounts, as hereinafter defined; and
 - (b) ninety percent (90%) of the Foreign Eligible Accounts, as hereinafter defined.
3. FORMULA COMPLIANCE. If the limitations in paragraph 2 above are exceeded at any time, Borrower shall immediately pay Bank sums sufficient to reduce the Revolving Loans by the amount of such excess.
4. ELIGIBLE ACCOUNT. "Eligible Account" shall mean an Account (as hereinafter defined) arising in the ordinary course of a Debtor's business which meets each of the following requirements:
 - (a) it is not owing more than ninety (90) days after the date of the original invoice or other writing evidencing such Account;
 - (b) it is not owing by an Account Debtor (as hereinafter defined) who has failed to pay twenty five percent (25%) or more of the aggregate amount of its Accounts owing to a Debtor within ninety (90) days after the date of the respective invoices or other writings evidencing such Accounts;
 - (c) it arises from the sale or lease of goods and such goods have been shipped or delivered to the Account Debtor under such Account; or it arises from services rendered and such services have been performed;
 - (d) it is evidenced by an invoice, dated not later than the date of shipment or performance, rendered to such Account Debtor or some other evidence of billing acceptable to Bank;
 - (e) it is not evidenced by any note, trade acceptance, draft or other negotiable instrument or by any chattel paper, unless such note or other document or instrument previously has been endorsed and delivered by Borrower to Bank;
 - (f) it is a valid, legally enforceable obligation of the Account Debtor thereunder, and is not subject to any offset, counterclaim or other defense on the part of such Account Debtor or to any claim on the part of such Account Debtor denying liability thereunder in whole or in part;
 - (g) it is subject to a first priority, properly perfected security interest in favor of Bank and is not subject to any sale of accounts, any rights of offset, assignment, lien or security interest whatsoever other than to Bank;
 - (h) it is not owing by a subsidiary or affiliate of Borrower;
 - (i) it is not owing by an Account Debtor which is the government of any foreign country or sovereign state, or of any state, province, municipality or other instrumentality thereof;

- (j) it is not an Account owing by the United States of America or any state or political subdivision thereof, or by any department, agency, public body corporate or other instrumentality of any of the foregoing, unless all necessary steps are taken to comply with the Federal Assignment of Claims Act of 1940, as amended, or with any comparable state law, if applicable, and all other necessary steps are taken to perfect Bank's security interest in such Account;
- (k) it is not owing by an Account Debtor for which Borrower has received a notice of (i) the death of the Account Debtor or any partner of the Account Debtor, (ii) the dissolution, liquidation, termination of existence, insolvency or business failure of the Account Debtor, (iii) the appointment of a receiver for any part of the property of the Account Debtor, or (iv) an assignment for the benefit of creditors, the filing of a petition in bankruptcy, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against the Account Debtor;
- (l) it is not an Account billed in advance, payable on delivery, for consigned goods, for guaranteed sales, for unbilled sales, for progress billings, payable at a future date in accordance with its terms, subject to a retainage or holdback by the Account Debtor or insured by a surety company;
- (m) it is not that portion of all Accounts owing by any single Account Debtor (other than PC-Tel) which exceeds twenty-five percent (25%) of the aggregate of all Accounts otherwise deemed eligible hereunder which are owing to Borrower by all Account Debtors;
- (n) it is not that portion of all Accounts owing by PC-Tel which exceeds fifty percent (50%) of the aggregate of all Accounts otherwise deemed eligible hereunder which are owing to Borrower by all Account Debtors; and
- (o) it is not owing by any Account Debtor whose obligations Bank, acting in its sole discretion, shall have notified Borrower are not deemed to constitute Eligible Accounts.

For purposes of this Agreement, an "Account" shall mean any right of a Borrower to payment for goods sold or leased or for services rendered, but shall not include interest or service charges, and "Account Debtor" shall mean a person who is obligated on or under an Account. An Account which is at any time an Eligible Account, but which subsequently fails to meet any of the foregoing requirements, shall forthwith cease to be an Eligible Account.

"Domestic Eligible Account" shall mean an Eligible Account that is owing by an Account Debtor which maintains its chief executive office in the United States of America and is organized under the laws of the United States of America, or any state thereto.

"Foreign Eligible Account" shall mean an Eligible Account (a) that is owing by an Account Debtor which either does not maintain its chief executive office in the United States of America or is not organized under the laws of the United States of America, or any state thereto and (b) with respect to which either the Account Debtor has delivered an irrevocable letter of credit issued or confirmed by a bank satisfactory to Bank and payable only in the United States of America and in U.S. dollars, sufficient to cover such Account, in form and substance satisfactory to Bank, or such Account is subject to credit insurance payable to Bank issued by an insurer and on terms and in an amount acceptable to Bank.

- 5. INSPECTIONS; COMPLIANCE. Borrower shall permit Bank and its designees from time to time to make such inspections and audits, and to obtain such confirmations or other information, with respect to any of the Collateral or any Account Debtor as Bank is entitled to make or obtain under the Credit Agreement or the Security Agreement, and shall reimburse Bank on demand for all costs and expenses incurred by Bank in connection with such inspections and audits. Borrower shall further comply with all of the other terms and conditions of the Credit Agreement and the Security Agreement.
- 6. DEFAULT. Any failure by Borrower to comply with this Agreement shall constitute a default under the Credit Agreement.
- 7. AMENDMENTS; WAIVERS. This Agreement may be amended, modified or terminated only in writing duly executed by Borrower and Bank. No delay by Bank in requiring Borrower's compliance herewith shall constitute a waiver of such right. The rights granted to Bank hereunder are cumulative, and in addition to any other rights Bank may have by agreement or under applicable law. This Agreement shall supersede and replace in their entirety any prior advance formula agreements in effect between Bank and Borrower. This Agreement shall be governed by and construed in accordance with the

internal laws of the State of Texas, without regard to conflict of laws principles.

8. DILUTION OF ACCOUNTS. In the event the Bank, at any time in its sole discretion, determines that the dollar amount of Eligible Accounts collectable by Borrower is reduced or diluted as a result of discounts or rebates granted by Borrower to the respective Account Debtor(s), returned or rejected inventory or services, or such other reason or factor as Bank deems applicable, Bank may, in its sole discretion, upon five (5) business days' prior written notice to Borrower, reduce or other wise modify the percentage of Eligible Accounts included within the Advance Formula under paragraph 2 above and/or reduce the dollar amount of Borrower's Eligible Accounts by an amount determined by Bank in its sole discretion.

12. JURY WAIVER. BORROWER AND BANK ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED. EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR CHOICE, KNOWINGLY AND VOLUNTARILY, AND FOR THEIR MUTUAL BENEFIT WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THE PERFORMANCE OR ENFORCEMENT OF, OR IN ANY WAY RELATED TO, THIS AGREEMENT OR THE INDEBTEDNESS.

13. SPECIAL PROVISIONS*

*None, if left blank.

IN WITNESS WHEREOF, this Agreement has been duly executed as of the day and year first above written.

Borrower's Chief Executive Office Address:
4635 Boston Lane

Austin, Texas 78735

BORROWER:
SILICON LABORATORIES INC.

By: /s/ Navdeep Sooch

SIGNATURE OF

Its: Chief Executive Officer
TITLE (IF APPLICABLE)

By: /s/ John W. McGovern

SIGNATURE OF

Its: Chief Financial Officer

Accepted and Approved:

COMERICA BANK-TEXAS, a Texas banking association

By: /s/ Julie A. Smith

SIGNATURE OF JULIE A. SMITH

Its:

TITLE: VICE PRESIDENT