

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED OCTOBER 28, 1995  
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NO. 1-7819

ANALOG DEVICES, INC.  
(Exact name of registrant as specified in its charter)

MASSACHUSETTS 04-2348234  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

ONE TECHNOLOGY WAY, NORWOOD, MA 02062-9106  
(Address of principal executive offices) (Zip Code)

(617) 329-4700  
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12 (b) OF THE ACT:

COMMON STOCK \$.16 2/3 PAR VALUE NEW YORK STOCK EXCHANGE  
Title of Each Class Name of Each Exchange on Which Registered

SECURITIES REGISTERED PURSUANT TO SECTION 12 (g) OF THE ACT:

NONE

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$2,630,610,015 based on the closing price of the Common Stock on the New York Stock Exchange Composite Tape reporting system on December 29, 1995.

Indicate the number of shares outstanding of each class of Common Stock: 114,677,500 shares of \$.16 2/3 par value Common Stock as of December 29, 1995.

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENT DESCRIPTION	10-K PART
Portions of the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held March 12, 1996.....	III

## ITEM 1. BUSINESS

Analog Devices, Inc. ("Analog" or the "Company") designs, manufactures and markets a broad line of high-performance linear, mixed-signal and digital integrated circuits ("ICs") that address a wide range of real-world signal processing applications. The Company's principal products include general-purpose, standard-function linear and mixed-signal ICs ("SLICs"), special-purpose linear and mixed-signal ICs ("SPLICs") and digital signal processing ICs ("DSP ICs"). The Company also manufactures and markets devices using assembled product technology.

Nearly all of the Company's products are components, which are typically incorporated by original equipment manufacturers (OEMs) in a wide range of equipment and systems for use in communications, computer, industrial, instrumentation, military/aerospace and high-performance consumer electronics applications. The Company sells its products worldwide; approximately 44% of the Company's fiscal 1995 net sales were made to customers in North America, while most of the balance was to customers in Western Europe and the Far East.

## INDUSTRY BACKGROUND

Real-world phenomena, such as temperature, pressure, sound, images, speed, acceleration, position and rotation angle, are inherently analog in nature, consisting of continuously varying information. This information can be detected and measured using analog sensors, which represent real-world phenomena by generating continuously varying voltages and currents. The signals from these sensors are initially processed using analog methods, such as amplification, filtering and shaping. They are then usually converted to digital form for input to a microprocessor, which is used to manipulate, store or display the information. In many cases the signals are further processed after conversion to digital form using a technology called "digital signal processing." In addition, digital signals are frequently converted to analog form to provide signals for analog display, sound, or control functions. These manipulations and transformations are collectively known as "real-world signal processing."

Significant advances in semiconductor technology over the past 10 to 15 years have led to substantial increases in the performance and functionality of ICs used for signal processing applications. These advances include the ability to create VLSI (Very Large Scale Integration) mixed-signal ICs that contain both high-performance analog circuitry and large amounts of high-density digital circuitry. The analog circuitry portion of the IC is used for manipulating real-world signals while still in analog form and for converting analog signals into digital form (or vice versa), and the digital portion is used for further processing analog signals subsequent to their conversion to digital form. The ICs resulting from these advances are used as components in equipment and systems to achieve higher performance and more efficient signal processing.

## COMPANY OVERVIEW AND STRATEGY

Analog believes it is one of the world's largest suppliers of SLIC products. The Company's SLIC products are primarily high-performance, single-function devices. The majority of the Company's SLIC revenue is attributable to data converters (analog-to-digital and digital-to-analog) and amplifiers. SLICs are sold to a very large customer base for a wide variety of applications, including applications in the medical, engineering and scientific instruments market, factory automation market and military/aerospace market.

Over the past five years, Analog has sought to balance its traditionally stable SLIC business with growth opportunities for SPLICs and DSP ICs. Building upon its expertise in linear IC technology, the Company has developed special-purpose linear and mixed-signal ICs tailored to specific high-volume applications in target markets. The Company also has extended its expertise in analog signal processing and data conversion to develop DSP ICs. The Company's SPLICs and DSP ICs address the emerging demand for high levels of performance in many communications, computer and other high-volume applications. These products have a high level of functionality (i.e., many functions on one chip) to satisfy OEMs' requirements for an integrated solution with low cost per function.

To build upon its position as a leader in real-world signal processing, Analog is pursuing strategies that include the following:

- Expand Traditional SLIC Business. The Company has taken a three-pronged approach to grow its SLIC business. First, it is seeking to solidify its leading position in the market for general purpose operational amplifiers and data converters, particularly in instrumentation and factory automation applications. Second, it is expanding its SLIC product portfolio to address other market segments, such as power management ICs for mobile phones and laptop computers and interface ICs for modems and printers. Third, the Company is developing SLICs for new high-volume applications in the communications, computer and consumer markets, including radio frequency ("RF") products for both wireless and broadband wired communication applications.
- Become a Major Supplier of General-Purpose DSP ICs. The Company's general-purpose DSP ICs consist of a family of programmable 16-bit fixed point and 32-bit floating point DSPs. These products offer processing speed, ease of programming and on-chip memory that allow system designers to cost effectively implement complex algorithms for signal processing applications. Analog believes that this product line will enable it to build a leading position in the general-purpose DSP market, principally for communications and computer applications.
- Pursue Growth Opportunities for System-Level Signal-Processing ICs. The Company is leveraging its expertise in both analog signal processing and data conversion to develop SPLICs and DSP ICs that provide system-level solutions for various growth applications, particularly in the communications and computer markets. The Company's system-level ICs often replace a combination of SLICs and general-purpose DSPs that are used by customers in their initial product designs. The Company offers system-level ICs for wireless communications applications such as digital mobile phones and base stations, and for computer applications such as audio enhancement in multimedia PCs.
- Leverage Core Technologies to Develop Innovative Products. The Company plans to continue applying its core technologies to develop a continuous flow of new products. In addition, the Company plans to continue to extend its core technologies to include new technologies, such as RF signal processing, which Analog has used primarily for wireless communications applications, and surface micromachining, which Analog has used to develop an accelerometer for automobile airbag systems. The Company intends to use its micromachining technology to address other applications outside the automotive industry.

#### PRINCIPAL PRODUCTS

The Company operates predominantly in one industry segment: the design, manufacture and marketing of a broad line of high-performance linear, mixed-signal and digital integrated circuits that address a wide range of real-world signal processing applications. Analog's products can be divided into four classifications: SLICs; SPLICs and DSP ICs; hard disk drive ICs; and assembled products.

A substantial portion of the Company's products are proprietary (available only from Analog), while equivalents to most of its other products are available from a limited number of other suppliers. Many of the Company's products tend to be less price sensitive than other types of ICs, such as DRAM (Dynamic Random Access Memory) ICs, primarily because there are fewer suppliers and because OEMs, in many cases, after qualifying one manufacturer's high-performance linear or mixed-signal IC for a specific application, are reluctant to switch manufacturers due to the risk of degradation in the performance of their product and/or the effort required to qualify additional suppliers.

The following table sets forth the approximate percentage of revenue attributable to each of the Company's four product groups for the past three fiscal years:

PRODUCTS	1995	1994	1993
SLICs	64%	60%	60%
SPLICs and DSP ICs	24	20	20
Hard Disk Drive ICs	4	9	6
Assembled Products	8	11	14

Analog believes that it is one of the world's largest suppliers of SLIC products. SLICs have been the foundation of the Company's business for more than 20 years. The Company's SLIC products are primarily high-performance, single-function devices. The majority of the Company's SLIC revenue is attributable to data converters (analog-to-digital and digital-to-analog) and amplifiers. Other SLIC products offered by the Company include analog signal-processing devices (such as analog multipliers), voltage references and comparators. The Company is currently expanding its SLIC product offerings in areas where it traditionally has had limited focus, principally interface circuits and power management ICs. It is also expanding its SLIC product line to include a much larger number of products designed to operate from single-supply 3- or 5-volt power sources to better meet the needs of customers designing portable, battery-operated equipment.

Analog's SLIC products tend to be general purpose in nature, which allows customers to incorporate them in a wide variety of equipment and systems. Analog's product portfolio includes several hundred SLICs, any one of which can have as many as several hundred customers. SLICs typically have long product life cycles. The Company's SLIC customers include both OEMs and customers who build equipment for their own use. Historically, most SLICs have been purchased by OEMs which serve the industrial and military/aerospace markets, but they are now also being used for applications in commercial and consumer communications equipment, personal computers (PCs) and peripheral equipment used with PCs and computers.

By using standard, high-performance, readily available, off-the-shelf components in their designs, Analog's customers can reduce the time required to develop and bring new products to market. Given the high cost of developing customized ICs, SLICs usually provide the most cost-effective solutions for low- to medium-volume applications. In addition, combinations of SLICs connected together on a printed circuit board can provide functionality that cannot currently be implemented with a single-chip device.

#### SPLICs AND DSP ICs

SPLICs and DSP ICs, which are collectively referred to as system-level ICs, are multi-function devices that feature high levels of functional integration on a single chip. Most SPLICs are mixed-signal devices (some of which include DSP capability) and the balance are linear-only devices. SPLICs are almost always designed to the requirements of a specific application, and the design process often includes significant input from one or more potential key customers. Market demand for SPLICs is driven by the benefits that result from combining a number of functions on a single circuit as opposed to a combination of SLICs and other ICs. These benefits include higher performance, lower cost per function, smaller size, lower weight, fewer parts and decreased power consumption. These products enable customers to achieve easier design-ins and faster time to market. The Company believes that these benefits are becoming more important to the Company's OEM customers as they increase their focus on high-performance, small, lightweight products, many of which are battery powered.

The Company's general-purpose DSP ICs are designed to efficiently execute specialized programs (algorithms) associated with processing real-time, real-world data. The Company's fixed-point and floating-point DSP ICs share a common architecture and code compatibility, which allows system designers to address cost, performance and time-to-market constraints. Analog's DSP ICs are supported with specialized applications and easy-to-use, low-cost design tools, which reduce product development cost and time to market.

The Company's DSP ICs include general-purpose DSPs and mixed-signal ICs that include a DSP core along with data conversion and analog signal processing circuitry. Demand for system-level ICs that incorporate both DSP functionality and sophisticated mixed-signal capability tailored to specific applications is increasing as customers continue to demand as much functionality as possible from a single chip.

#### HARD DISK DRIVE ICs

ICs in this product category are used in hard disk drives that serve as rotating mass storage devices in end products such as PCs, workstations and network servers. These ICs process analog signals from a hard disk drive's read/write head during read operations and position the read/write head over the desired track on a hard disk drive platter during read and write operations.

## ASSEMBLED PRODUCTS

The Company's assembled products consist of hybrids, printed-board modules and multi-chip modules ("MCMs"). A hybrid consists of several chips and discrete components mounted and wired together on a substrate. A printed-board module consists of surface-mount components assembled on a small printed board that is then encapsulated in a small plastic case. An MCM consists of several chips assembled in an automated fashion in a multilayer package that provides high interconnect density at low cost.

Revenues from this product group have been declining since 1989, as hybrids have been replaced in many new designs with smaller, lower-cost monolithic ICs that offer higher levels of performance and integration. The Company plans to continue marketing printed-board modules (primarily input/output modules used in industrial control and factory automation applications). Orders for assembled products overall showed a year-over-year increase in fiscal 1995 following several years of decline as demand for recently designed MCMs offset declining demand for older hybrid products.

## MARKET AND APPLICATIONS

The Company's products are sold primarily to OEMs that incorporate them in equipment, instruments and systems sold to end users for a wide variety of applications, including communications equipment; computers and computer peripherals; engineering, medical and scientific instruments; factory automation equipment; military/aerospace equipment; high-end consumer electronics products; and automotive. The Company's growth has been aided both by the expansion of these markets and the increasing use of computer technology in the equipment and systems sold in these markets.

For fiscal 1995, Analog's 20 largest customers accounted for approximately 25% of the Company's net sales. The largest single customer represented less than 5% of net sales. Sales of the Company's products are not highly seasonal.

Listed below are some of the characteristics of each of the Company's major served markets:

**COMMUNICATIONS** -- includes data and fax modems, digital cellular telephones and portable, wireless communications equipment and broadband wired applications. The need for ever higher speed, coupled with more reliable, more bandwidth-efficient communications is creating increasing demand for systems that include both digital and analog signal processing capability. Demand for signal processing ICs for this market is also being driven by the equipment manufacturers' need for components that enable them to develop cost-effective products that feature high performance, small size, low weight and minimal power consumption.

**COMPUTERS AND COMPUTER PERIPHERALS** -- includes high-performance personal computers, workstations and peripheral devices such as hard disk drives. The Company currently supplies a variety of ICs used in this market for functions such as graphic displays; interfaces between PCs and peripherals such as modems and printers; power and battery management; and enhanced sound input and output capability for business and entertainment applications.

**INSTRUMENTATION** -- includes manufacturers of engineering, medical and scientific instruments. These products are usually designed using the highest performance SLICs available, where production volumes generally do not warrant custom or application-specific ICs.

**FACTORY AUTOMATION** -- includes data acquisition systems, automatic process control systems, robotics, environmental control systems and automatic test equipment ("ATE"). These products generally require ICs that offer performance greater than that available from commodity-level ICs, but generally do not have production volumes that warrant custom or application-specific ICs. Combinations of SLICs are therefore usually employed to achieve the necessary functionality, except in ATE applications where the high level of electronic circuitry required per tester has created opportunities for SPLICs.

**MILITARY/AEROSPACE** -- includes the military, commercial avionics and space markets, all of which require high-performance ICs that meet rigorous environmental and reliability specifications. Nearly all of the Company's SLICs can be supplied in versions that meet appropriate military standards. In addition, many products can be supplied to meet the standards required for broadcast satellites and other commercial space applications. Most of the Company's products sold into this market are derived from standard commercial grade ICs, although the Company sometimes develops products expressly for military/aerospace applications.

CONSUMER ELECTRONICS -- The emergence of high-performance consumer products, such as compact disc players, digital VCRs, digital audio tape equipment and digital camcorders, has led to the need for high-performance SPLICs with a high level of functionality. Although the Company's revenue from this market is not currently significant, the Company expects to supply ICs for sophisticated products used by consumers for computing, communications and entertainment applications, and believes that many of these applications will involve digital signal processing.

AUTOMOTIVE -- Although the automotive market has historically been served with low-cost, low-performance ICs, demand has emerged for higher performance devices for a wide range of applications. In response, Analog is developing products specifically for the automotive market. The Company began shipments of its first automotive product, a micromachined IC employed as a crash sensor in airbag systems, in 1993. This product serves as an alternative to an electromechanical sensor. The Company began shipments of this device to Delco in 1994 for use in several 1995 model-year General Motors "W body" cars. It is also being used in, or has been selected for, several other manufacturers' airbag systems.

#### RESEARCH AND DEVELOPMENT

The markets served by Analog are characterized by rapid technological changes and advances. Accordingly, the Company makes substantial investments in the design and development of new products and processes, and for significant improvement of existing products and processes. Analog spent \$134.3 million during fiscal 1995 for the design, development and improvement of new and existing products and processes, compared to \$106.9 million during fiscal 1994 and \$94.1 million during fiscal 1993.

In fiscal 1995, approximately half of the Company's R&D expenditures were devoted to the design and development of SPLICs and DSP ICs, and the development and improvement of processes used for these products. The Company believes that it will be able to leverage its core technological competencies and leadership position in linear and DSP technology to design and develop a wide range of highly integrated, high-performance, cost-effective mixed-signal SPLICs, many of which will include DSP capability. At the same time, however, the Company expects to continue developing new and improved SLIC products to increase its share of the SLIC market. In support of its research and development activities, the Company employs several hundred engineers involved in product and process development at several design centers and manufacturing sites located throughout the world.

As of October 28, 1995, the Company owned 311 U.S. patents and had 210 patent applications on file with the United States patent office. The Company believes that while its patents may provide some advantage, its competitive position is largely determined by such factors as the knowledge, ability and experience of the Company's personnel, new product development, market recognition and ongoing marketing efforts, customer service and technical support.

#### SALES CHANNELS

Analog sells its products in both North America and internationally through a direct sales force, third-party distributors and independent sales representatives. Approximately 44% of fiscal 1995 revenue was derived from customers in North America. As of December 1, 1995, the Company had 15 sales offices in the United States, and its third-party distribution channel consisted of nine national and regional third-party distributors and several independent sales representatives with numerous locations throughout the U.S. and Canada.

Approximately 28% of the Company's fiscal 1995 revenue was derived from sales to customers in Europe; 17% to customers in Japan; and 11% to customers in other international markets. As of December 1, 1995, the Company had direct sales offices in Australia, Austria, Denmark, France, Germany, Hong Kong, India, Israel, Italy, Japan, Korea, The Netherlands, Singapore, Sweden, Taiwan and the United Kingdom. The Company also had sales representatives and/or distributors in approximately 27 countries outside North America, including countries where the Company also has direct sales offices.

Approximately 42% of Analog's fiscal 1995 revenue was derived from sales made through distributors. The Company's distributors typically maintain an inventory of Analog products. Some of these distributors also sell products competitive with the Company's products, including those for which the Company is an alternate source. Sales to certain distributors are made under agreements which provide protection to the distributors for their inventory of Company products against price reductions and products that are slow-moving or have been discontinued by the Company. These agreements generally contain a provision for the return of the products to the Company in the event the relationship with the distributor is terminated.

Sales to North American distributors are not recognized until the products are resold by distributors to their customers. Sales made to distributors outside North America are recognized upon shipment to the distributor, but the Company provides specific reserves for possible returns and allowances.

The Company's worldwide sales efforts are supported by an extensive promotional program that includes editorial coverage and paid advertising in trade publications; direct mail programs; promotional brochures; technical seminars; and participation in trade shows. The Company publishes and distributes full-length databooks, short-form catalogs, applications guides, technical handbooks and detailed data sheets for individual products. The Company also maintains a staff of application engineers who aid customers in incorporating Analog's products into their products during their product development cycles.

#### PRODUCTION AND RAW MATERIALS

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

In addition to using industry-standard bipolar and CMOS wafer fabrication processes, Analog employs a number of Company-developed proprietary processes specifically tailored for use in fabricating high-performance linear and mixed-signal SLICs and SPLICs.

Analog's IC products are fabricated both at the Company's production facilities and by third-party wafer fabricators. Assuming that the Company can continue to maintain favorable relationships with its third-party wafer fabricators, it intends to continue using such suppliers for meeting most of its needs for wafers that can be fabricated using industry-standard digital processes. The Company intends to rely primarily on its own facilities for production of wafers fabricated with linear and mixed-signal processes. The Company operates wafer fabrication facilities in Wilmington, Massachusetts; Santa Clara, California; and Limerick, Ireland for production of linear and mixed-signal devices. The Company also operates assembly and test facilities located in the United States, Ireland, the Philippines and Taiwan. The Company uses two principal foundries, Taiwan Semiconductor Manufacturing Company and Chartered Semiconductor Corporation for the production of digital and VLSI mixed-signal devices.

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

As a result of strong demand for its products, the Company was manufacturing capacity constrained throughout most of fiscal 1995. While the Company is planning in fiscal 1996 to increase substantially its manufacturing capacity through both expansion of its production facilities and increased access to third-party wafer foundries, there can be no assurance that the Company will complete the expansion of its production facilities or secure increased access to third-party foundries in a timely manner, that the Company will not encounter unanticipated production problems at either its own facilities or at third-party foundries or that the increased capacity will be sufficient to satisfy demand for its products.

## BACKLOG

Backlog at the end of fiscal year 1995 was approximately \$286.8 million; it was approximately \$152.8 million at the end of the fiscal year 1994. The Company defines its backlog at any point in time as those orders for which customers have requested shipment within the next 13 weeks. The quantities of the Company's products to be delivered and their delivery schedules, as covered by customer purchase orders, are frequently revised by customers to reflect changes in their needs. As is customary in the semiconductor industry, the Company may allow such orders to be canceled or deliveries delayed by the customer without significant penalty. In addition, the Company's backlog includes its orders from domestic distributors as to which revenues are not recognized until the products are sold by the distributors. Accordingly, the Company believes that its backlog at any time should not be used as a measure of future revenues.

## GOVERNMENT CONTRACTS

The Company estimates that approximately 13% of its total worldwide revenue is attributable to sales to the U.S. government and government contractors and subcontractors. Analog's government contract-related business is predominantly in the form of negotiated, firm fixed-priced subcontracts. All such contracts and subcontracts contain standard provisions related to termination at the election of the United States government. The Company expects that the U.S. government's intention to further reduce U.S. military spending will result in a continuing gradual reduction in the percentage of the Company's total sales going to governmental users and contractors.

## COMPETITION

Analog competes with a large number of semiconductor companies in markets that are highly competitive. The Company believes it is one of the largest suppliers of high-performance linear and mixed-signal signal-processing components. These types of products fall into both the SLIC and SPLIC product categories. Competitors for the Company's linear and mixed-signal products include Brooktree Corp., Burr-Brown Corp., Cirrus Logic Inc., Exar Corp., Harris Corp., Linear Technology Corp., Maxim Integrated Products, Inc., National Semiconductor Corp., Sierra Semiconductor Corp., Siliconix Inc., Silicon Systems (a subsidiary of TDK Corp), Texas Instruments, Inc. and others.

Sales of DSP ICs represent a growing percentage of the Company's total sales. Analog's competitors for DSP ICs include AT&T, Integrated Device Technology, Inc., Motorola Semiconductor Products and Texas Instruments, Inc.

Many other companies offer components that compete with Analog's products; some also offer other electronic products, and some have financial resources substantially larger than Analog's. Also, some formerly independent competitors have been purchased by larger companies (which in some cases may be viewed as a means by which the acquiring company gains in-house capability). However, to the Company's knowledge, no manufacturer competes with Analog across all of the product types offered by the Company in its signal-processing components product line.

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

## ENVIRONMENT

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



## EMPLOYEES

As of October 28, 1995, the Company employed approximately 6,000 persons. The Company's future success depends in large part on the continued service of its key technical and senior management personnel, and on its ability to continue to attract, retain and motivate qualified employees, particularly those highly skilled design, process and test engineers involved in the manufacture of existing products and the development of new products and processes. The competition for such personnel is intense, and the loss of key employees could have a material adverse effect on the Company. The Company believes that relations with its employees are good.

## INTERNATIONAL OPERATIONS

Analog has direct sales offices in 16 countries outside the United States. For fiscal 1995, Analog's international sales accounted for approximately 56% of total sales, the majority of which were made through its direct international sales offices while the balance, approximately 40% of the total, were made through distributors. In addition, the Company has manufacturing facilities in Ireland, the Philippines and Taiwan. The Company also has arrangements with subcontractors, principally in the Far East, for the wafer fabrication, assembly and testing of certain products.

## ITEM 2. PROPERTIES

The Company's corporate headquarters is located in Norwood, Massachusetts. Manufacturing and other operations are carried on in several locations worldwide. The following tables provide certain information as to the Company's principal general offices and manufacturing facilities:

PLANT LOCATION OWNED: -----	USE ---	FLOOR SPACE -----
Wilmington, Massachusetts	Wafer fabrication, components assembly and testing, engineering and administrative offices	245,200 sq. ft.
Wilmington, Massachusetts	Engineering, marketing and administrative offices	108,000 sq. ft.
Wilmington, Massachusetts	Components engineering, marketing and administrative offices	67,200 sq. ft.
Limerick, Ireland	Wafer fabrication, components assembly and testing, engineering and administrative offices	286,200 sq. ft.
Greensboro, North Carolina	Components and board assembly and testing, engineering and administrative offices	100,000 sq. ft.
Manila, Philippines	Components assembly and testing, engineering and administrative offices	85,000 sq. ft.

PRINCIPAL PROPERTIES LEASED -----	USE ---	FLOOR SPACE -----	LEASE EXPIRATION ----- (FISCAL YEAR)	RENEWALS -----
Norwood, Massachusetts (1)	Corporate headquarters, engineering, components assembly and sales and marketing offices	135,000 sq. ft.	2007	3, five-yr. periods
Westwood, Massachusetts (2)	Components and subsystems assembly and testing, engineering and administrative offices	100,400 sq. ft.	1996	2, ten-yr. periods
Santa Clara, California	Wafer fabrication, components assembly and testing, engineering and administrative offices	72,800 sq. ft.	2000	2, five-yr. periods
Santa Clara, California	Administrative offices and engineering	43,500 sq. ft.	2000	2, five-yr. periods
Sunnyvale, California	Wafer fabrication	27,000 sq. ft.	2000	3, five-yr. periods
Taipei, Taiwan	Components testing, engineering and administrative offices	45,700 sq. ft.	1997	3 to 5 yr. option to extend

(1) See Note 6 - "Commitments and Contingencies" in the Notes to Consolidated Financial Statements for information regarding contingent liabilities related to the lease of the Norwood, Massachusetts property.

(2) The Westwood, Massachusetts facility is subject to a 25-year capital lease with an option to purchase.

## ITEM 2. PROPERTIES -- (CONTINUED)

In addition to the principal leased properties listed in the previous table, the Company also leases sales offices and other premises at 25 locations in the United States and 25 locations overseas under operating lease agreements. These leases expire at various dates through the year 2010. The Company anticipates no difficulty in retaining occupancy of any of its manufacturing, office or sales facilities through lease renewals prior to expiration or through month-to-month occupancy, or in replacing them with equivalent facilities. See Note 5 - "Lease Commitments" in the Notes to Consolidated Financial Statements for information concerning the Company's obligations under all operating and capital leases.

## ITEM 3. LEGAL PROCEEDINGS

## TEXAS INSTRUMENTS LITIGATION

The Company was a defendant in two lawsuits brought in Texas by Texas Instruments, Inc. ("TI"), alleging patent infringement, including patent infringement arising from certain plastic encapsulation processes, and seeking an injunction and unspecified damages against the Company. The alleged infringement of one of these patents is also the subject matter of a proceeding brought by TI against the Company before the International Trade Commission ("ITC"). On January 10, 1994, the ITC brought an enforcement proceeding against the Company alleging that the Company had violated the ITC's cease and desist order of February 1992 (as modified in July 1993), which prohibited the Company's importation of certain plastic encapsulated circuits, and seeking substantial penalties against the Company for these alleged violations. If it is determined that the Company has violated the cease and desist order, the ITC could seek to impose penalties of up to \$100,000 per day of violation from the date of the cease and desist order (February 1992) or a sum equal to twice the value of the goods determined to be sold in violation of the order. In addition, in June 1992, the Company commenced a lawsuit against TI in Massachusetts alleging certain TI digital signal processors infringed one of the Company's patents.

Effective April 1, 1995, the Company and TI settled both Texas lawsuits and the Massachusetts lawsuit principally by means of a royalty-free cross license of certain of the Company's and TI's patents. On April 25, 1995, the Company filed with the ITC a motion to terminate the ITC enforcement proceeding on the grounds that further action by the ITC is unnecessary in light of the Company's settlement with TI. On May 8 1995, an Administrative Law Judge issued a recommended determination to the ITC to grant the Company's motion to terminate the ITC proceeding. The investigative office of the ITC has opposed the motion, claiming that, notwithstanding the Company's settlement with TI, the Company's alleged violation of the ITC's cease and desist order warrants the imposition of substantial penalties. The Company's motion is pending before the ITC.

## MAXIM LITIGATION

The Company is a defendant in a lawsuit brought by Maxim Integrated Products, Inc. ("Maxim") in the United States District Court for the Northern District of California seeking an injunction against, and claiming damages for, alleged antitrust violations and unfair competition in connection with distribution arrangements between the Company and certain distributors. Maxim alleged that certain distributors ceased doing business with Maxim as a result of the distribution arrangements between the distributors and the Company, resulting in improper restrictions to Maxim's access to channels by which it distributes its products. Maxim asserted actual and consequential damages in the amount of \$14.1 million and claimed restitution and punitive damages in an unspecified amount. Under applicable law, Maxim would receive three times the amount of any actual damages suffered as a result of any antitrust violation. On September 7, 1994, Maxim's claim was dismissed for lack of evidence. Maxim has appealed this ruling and oral argument of the appeal was held in January 1996.

For additional information concerning the above-described lawsuits and the potential impact of such suits upon the Company's financial condition and results of operations, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## OTHER

In addition, from time to time as a normal incidence of the nature of the Company's business, various claims, charges and litigation are asserted or commenced against the Company arising from or related to contractual matters, patents, personal injury, environmental matters and product liability. Such litigation includes patent infringement actions brought against the Company by Sextant Avionique, S.A. ("Sextant") in Paris, France, which claims that the Company's accelerometer infringes certain Sextant patents and seeks to enjoin such infringement. While there can be no assurance that the Company will prevail in all of these matters, the Company does not believe that these matters will have a material adverse effect on the Company's consolidated financial position or consolidated results of operations. However, an adverse resolution could have an adverse effect on the Company's consolidated results of operations in the quarter in which these matters are resolved.

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

No matters were submitted to a vote of the Company's security holders during the last quarter of the fiscal year ended October 28, 1995.

## EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth (i) the name and age of each present executive officer of the Company; (ii) the position(s) presently held by each person named; and (iii) the principal occupations held by each person named for at least the past five years.

EXECUTIVE OFFICER -----	AGE ---	POSITION -----	BUSINESS EXPERIENCE -----
Ray Stata .....	61	Chairman of the Board and Chief Executive Officer	Chairman of the Board and Chief Executive Officer since 1973; President from 1971 to November 1991.
Jerald G. Fishman .....	50	President, Chief Operating Officer and Director	President, Chief Operating Officer and Director since November 1991; Executive Vice President from 1988 to November 1991; Group Vice President - Components from 1982 to 1988.
William A. Martin .....	36	Treasurer	Treasurer since March 1993; Assistant Treasurer from October 1991 to March 1993; Manager of Treasury Finance from March 1987 to October 1991; Manager of International Treasury from October 1985 to March 1987.
Brian P. McAloon .....	45	Vice President, Sales	Vice President, Sales since May 1992; Vice President, Sales and Marketing - Europe and Southeast Asia from 1990 to 1992; General Manager, Analog Devices, B.V. - Limerick, Ireland from 1987 to 1990.
Joseph E. McDonough ...	48	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer since November 1991; Vice President since 1988 and Treasurer from 1985 to March 1993; Director of Taxes from 1983 to 1985.

There is no family relationship among the named officers.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is listed on the New York Stock Exchange under the symbol ADI. The table below sets forth the high and low prices of the Common Stock during the two most recent fiscal years.

PERIOD	1995		1994	
	HIGH	LOW	HIGH	LOW
First Quarter	\$16.25	\$13.63	\$11.63	\$ 8.63
Second Quarter	\$18.75	\$13.38	\$13.88	\$10.88
Third Quarter	\$25.25	\$17.13	\$13.88	\$10.88
Fourth Quarter	\$26.25	\$19.88	\$16.38	\$11.75

On November 28, 1995, the Company's Board of Directors authorized a three-for-two stock split effected in the form of a 50% stock dividend distributed on January 3, 1996 to stockholders of record December 12, 1995. All stock prices in the table above have been restated to reflect the split.

The Company's \$60,000,000 credit agreement restricts the aggregate of all cash dividend payments declared or made subsequent to January 30, 1993 to an amount not exceeding \$29,734,000 plus 50% of the consolidated net income of the Company for the period from January 31, 1993 through the end of the Company's then most recent fiscal quarter. At October 28, 1995 this amount was equal to \$144,782,000. Although prior credit agreements may not have restricted the payment of dividends, the Company has never paid any cash dividends on its Common Stock.

The approximate number of holders of record of the Company's Common Stock at December 29, 1995 was 4,429. This number does not include shareholders for whom shares are held in a "nominee" or "street" name.

## ITEM 6. SELECTED FINANCIAL DATA

(thousands except per share amounts)	1995	1994	1993	1992	1991
Statement of Operations data:					
Net sales .....	\$ 941,546	\$773,474	\$666,319	\$567,315	\$537,738
Net income .....	119,270	74,496	44,457	14,935	8,203
Net income per share (1) .....	1.00	.64	.39	.14	.08
Balance Sheet data:					
Total assets .....	\$1,001,648	\$815,871	\$678,492	\$561,867	\$503,317
Long-term obligations ...	80,000	80,061	100,297	70,632	36,819

(1) All references to per share amounts have been restated to reflect the three-for-two stock split effected in the form of a 50% stock dividend distributed on January 3, 1996 to stockholders of record December 12, 1995.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## RESULTS OF OPERATIONS

## FISCAL 1995 COMPARED TO FISCAL 1994

The Company reported net sales of \$941.5 million in fiscal 1995, up \$168 million or 22% from net sales of \$773.5 million in fiscal 1994. Fiscal year 1995 sales growth was attributable to significant increases in sales volumes of both the Company's standard linear IC and system-level IC products as worldwide demand for precision integrated circuit products accelerated throughout fiscal 1995, exceeding the Company's expectations and capacity. Demand for the Company's ICs was strong both in its core industrial and instrumentation markets and in high-growth applications in the communications, computer and portable, wireless equipment markets. Total IC sales, representing both standard linear and system-level ICs, constituted approximately 92% of total sales in fiscal 1995, continuing the long-term trend of IC sales becoming a larger portion of the Company's revenues.

Sales of the Company's standard linear IC products, which make up the largest and most profitable part of the Company's business, increased approximately \$137 million or nearly 30% in fiscal 1995. Standard linear IC sales also increased as a percentage of total sales, accounting for 64% of total sales in fiscal 1995 compared to 60% in fiscal 1994. The growth in sales of standard linear ICs was primarily driven by increased penetration of the Company's data converter and amplifier products in high-performance instrumentation and factory automation applications and greater use of standard linear IC products in new high-volume applications in the communications, computer and consumer markets including digital cellular handsets and base stations, video applications and imaging applications. As in fiscal 1994, the distributor channel continued to have a positive effect on the Company's standard linear IC product line in fiscal 1995; distribution has become the fastest growing channel for these products.

Sales of system-level ICs, excluding those used in hard disk drives, increased approximately \$70 million or 46% in fiscal 1995, as the Company achieved substantial bookings and revenue gains in its general-purpose digital signal processing products and mixed-signal ICs for application-specific system-on-a-chip solutions. The strongest end user market growth for the Company's system-level IC products was experienced in wireless communications applications, including digital mobile phones and base stations, and computer applications, including audio enhancement in multimedia PCs. As a percentage of total sales, system-level IC products, with the exception of hard disk drive products, increased to 24% of total sales compared to 20% in fiscal 1994. Sales of hard disk drive products in fiscal 1995 declined \$37 million or 53% compared to fiscal 1994 due to a combination of scarcity of wafers and the rapid movement of this market to digital PRML channels.

Sales of the Company's assembled products decreased approximately \$2.5 million or 3% from fiscal 1994 to fiscal 1995 and as a percentage of total sales decreased from 11% to 8% over this same period. This sales decrease was comparatively less than in prior years as sales demand for newer multi-chip modules for the communications market began to offset the decline in older military hybrids.

In fiscal 1995, sales to North American customers increased \$68.3 million or 20% over fiscal 1994 to \$412.2 million. Sales to customers outside North America, primarily Europe, Japan and Southeast Asia, increased \$99.7 million or 23% to \$529.3 million. The distributor channel was a major contributor to sales growth in North America as well as in Europe and Japan especially for standard linear IC products. North American sales through distribution increased approximately 40% over the prior year while worldwide sales through distribution increased approximately 55% from fiscal 1994 to fiscal 1995. On a worldwide basis, sales through distribution accounted for approximately 42% of total sales in fiscal 1995 compared to 33% in fiscal 1994. Sales to European customers increased \$66.4 million or 34% to \$264 million, with much of this growth resulting from the Company's increased penetration of applications in the communications market, particularly in handsets and basestations used in the GSM (Global System for Mobile Communications) digital cellular telephone system now widely deployed in Western Europe. Sales in Japan increased \$32.1 million or 24% to \$165.1 million largely as a result of increased sales of standard linear IC products for factory automation and other industrial market applications. A weaker average U.S. dollar exchange rate also contributed to some of the improvement in European and Japanese sales. Sales to customers in Southeast Asia of \$100 million were essentially flat compared to fiscal 1994 due to the significant decline in hard disk drive sales. As a percentage of total

sales, North American and international sales accounted for 44% and 56%, respectively, unchanged from the comparable percentages in fiscal 1994.

As a result of strong demand for its products, the Company was manufacturing capacity constrained throughout most of fiscal 1995. The Company is pursuing a multi-faceted manufacturing capacity expansion program to substantially increase the number of fabricated wafers available to it in fiscal 1996 and beyond. See "Liquidity and Capital Resources" below for a discussion of the Company's efforts to address its capacity issues.

Gross margin increased to 50.7% of sales in fiscal 1995 compared to 49.0% of sales in fiscal 1994. The increase in gross margin was principally due to a higher proportion of standard linear IC products in the mix of products sold, which generally have higher gross margins than the Company's system-level IC products. The improvement in gross margin in fiscal 1995 was also attributable to greater capacity utilization, resulting in the absorption of fixed manufacturing costs over increased production volumes.

Research and development expenses increased approximately 26% in fiscal 1995 to \$134.3 million or 14.3% of sales. This increase was mainly due to higher spending in the development of new products and technologies targeted for the communications, computer and automotive markets, including initiatives in general-purpose digital signal processing such as the Company's SHARC product family, system-level ICs for computer audio and wireless communications applications, RF signal processing, surface micromachining technology, accelerometer products and continued development of innovative SLIC products and processes. The increase in R&D expenditures in fiscal 1995 was also attributable to increased staffing of design engineering personnel and the start up of two new design centers. The Company believes that technical leadership in the semiconductor industry is critical to its future success and is committed to maintaining a high level of research and development effort.

Selling, marketing, general and administrative (SMG&A) expense growth in fiscal 1995 was held to 8.6%, as SMG&A increased from \$170.3 million in fiscal 1994 to \$184.9 million in fiscal 1995. SMG&A expenses continued to decline as a percentage of sales to 19.6% in fiscal 1995 compared to 22.0% in fiscal 1994 and 23.8% in fiscal 1993, consistent with the Company's goal of constraining SMG&A spending growth to a rate significantly below sales growth. The increase in SMG&A expenses in absolute dollars was primarily related to higher incentive expenses associated with improved revenue and profitability levels, and greater product advertising and related promotional costs in support of the Company's product lines and customer base.

Operating income grew 55% to 16.8% of sales compared to 13.2% of sales in fiscal 1994. This performance gain reflected the combination of accelerated demand for the Company's products, improved gross margin and continuing commitment to growing expenses more slowly than sales.

Nonoperating expenses decreased \$6.6 million in fiscal 1995 due primarily to a \$2.9 million decrease in interest expense and a \$2.9 million increase in interest income. The reduction in interest expense from fiscal 1994 to fiscal 1995 was due in large part to the maturity of a \$20 million term loan early in the first quarter of fiscal 1995 while the increase in interest income over this same period was attributable to a higher average level of cash investments and a higher weighted average investment rate in fiscal 1995 versus fiscal 1994. Interest expense in fiscal 1996 will increase from fiscal 1995 as a result of the issuance of \$230,000,000 of 3- 1/2% Convertible Subordinated Notes in December 1995.

The effective income tax rate increased to 25.2% in fiscal 1995 from 23.1% in fiscal 1994 due to earnings growth in higher tax rate jurisdictions including the U.S. The Company maintains a valuation allowance for deferred tax assets, which was \$10.0 million at both October 28, 1995 and October 29, 1994, based on management's assessment that realization of such deferred tax assets was not assured for book and tax capital losses and book basis foreign tax credits.

The growth in sales, improved operating performance and lower nonoperating expenses yielded a 60% rise in net income to \$119.3 million or 12.7% of sales compared to \$74.5 million or 9.6% of sales. Earnings per share in fiscal 1995 grew 56% to \$1.00 from \$0.64 in fiscal 1994.



The Company has not yet adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" which will require adoption in fiscal 1997. The Company is in the process of determining the effect of adoption of these statements on its consolidated financial statements and related disclosures.

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

#### FISCAL 1994 COMPARED TO FISCAL 1993

Net sales of \$773.5 million for fiscal 1994 increased 16% from net sales of \$666.3 million for fiscal 1993. The sales increase was due principally to higher sales volumes of both standard linear IC and system-level IC products which together grew approximately 20% year-over-year to comprise approximately 89% of total sales for fiscal 1994.

Standard linear IC sales rose approximately \$66.5 million or approximately 17% to \$467.5 million in fiscal 1994. This increase was primarily due to the combination of increased penetration of the distribution channel coupled with well accepted new product offerings.

Sales of system-level IC products grew approximately \$49.0 million or approximately 28% to \$224.0 million in fiscal 1994. This growth was attributable largely to increased demand for applications in personal computers and wireless communications products, and the Company's broader participation in these growing markets.

Sales of assembled products declined approximately 9% from fiscal 1993 to fiscal 1994 and as a percentage of total sales decreased from 14% to 11% over the same period.

Sales to North American customers increased 18% over fiscal 1993 levels to \$343.9 million with much of this increase coming from the distributor channel as sales through North American distributors increased 36% from the prior year. Sales to international customers grew 15% led by sales increases of approximately 27% and 35% in Japan and Southeast Asia, respectively. Sales growth in Japan was mainly attributable to increased demand for standard linear IC products, aided in part by the translation of yen-denominated sales to a weaker average U.S. dollar. The sales increase in Southeast Asia represented continued strength in sales of personal computer products. European sales of \$197.9 million for fiscal 1994 were flat compared to the prior year due to weaker European industrial economies as compared to fiscal 1993. Sales growth in Europe resumed in the fourth quarter of fiscal 1994, growing again after weakness in the first nine months of the year as the European economy showed improvement, particularly Germany. As a percentage of total net sales, North American and international sales remained at 44% and 56%, respectively, which were comparable to fiscal 1993.

Gross margin improved to 49.0% of sales for fiscal 1994 compared to 47.3% for fiscal 1993. This increase resulted principally from a significant improvement in gross margin for system-level IC products as variable manufacturing costs declined and fixed costs were allocated over greater production volumes. Gross margin for the Company's standard linear IC products remained at a high level and gross margin on all IC products, which include both standard linear and system-level ICs, was approximately 50% of sales.

R&D expenses for fiscal 1994 increased 13.6% from fiscal 1993 as the Company continued to invest in new product development. As a percentage of sales, R&D expenses were 13.8% in fiscal 1994 compared to 14.1% in fiscal 1993.

Selling, marketing, general and administrative (SMG&A) expenses grew 7.4% compared to fiscal 1993, increasing at a lower rate than sales. As a result, SMG&A as a percentage of sales decreased to 22.0% for fiscal 1994 from 23.8% for fiscal 1993. The increase in SMG&A expenses related mostly to increased strategic advertising and marketing expenses associated with many new product launches and additional incentive expense associated with the Company's improved performance.

In total, operating expenses were reduced to 35.8% of sales, down from 37.9% in fiscal 1993, consistent with the Company's emphasis on maintaining tight control over all costs in order to gain better operating leverage on increases in revenues.

Operating income reached 13.2% of sales for fiscal 1994, an increase of nearly four percentage points from 9.4% of sales for fiscal 1993. This performance gain reflected the higher sales level, improvement in gross margin as a percentage of sales and slower rate of expense growth versus sales.

Nonoperating expenses decreased \$2.3 million, benefiting from increased interest income on a higher level of invested cash as net interest expense was reduced from \$5.8 million in fiscal 1993 to \$2.0 million in fiscal 1994.

The effective income tax rate increased to 23% in fiscal 1994 from 20% in fiscal 1993 due to a shift in the mix of worldwide income. In the first quarter of fiscal 1994, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). The impact of adopting FAS 109 was not material to the Company's consolidated financial statements. A deferred tax asset valuation allowance of \$14.3 million was established at October 31, 1993 based on management's assessment that realization of such deferred tax assets was not assured for book and tax capital losses, book basis foreign tax credits, and general business tax credits. The net change in the valuation allowance for the year ended October 29, 1994 was a decrease of \$4.3 million primarily from the utilization of general business tax credits.

The growth in sales, improved operating performance and lower nonoperating expenses resulted in a 68% rise in net income to \$74.5 million or 9.6% of sales in fiscal 1994 compared to \$44.5 million or 6.7% of sales in fiscal 1993.

#### LIQUIDITY AND CAPITAL RESOURCES

At October 28, 1995, the Company had \$151.1 million of cash and cash equivalents and short-term investments compared to \$181.8 million at October 29, 1994. The Company's operating activities generated net cash of \$210.3 million, or 22.3% of sales, and \$186.6 million, or 24.1% of sales, in fiscal 1995 and fiscal 1994, respectively. Investing activities used \$238.7 million in fiscal 1995 and \$166.8 million in fiscal 1994 while financing activities used \$10.9 million in fiscal 1995 and generated \$10.0 million in fiscal 1994. Working capital decreased to \$271.6 million at the end of fiscal 1995 from \$299.3 million at the end of fiscal 1994. This decrease was primarily due to lower cash, cash equivalents and short-term investments which were used in part to fund investing activities in fiscal 1995, and secondarily to increased accounts payable and accrued liabilities associated with an expanded scale of operations.

The Company's primary source of funds in fiscal years 1995 and 1994 was net cash generated by operations. The \$23.7 million increase in operating cash flows from \$186.6 million in fiscal 1994 to \$210.3 million fiscal 1995 was largely attributable to higher net income and an increase in accounts payable and accrued liabilities, changes which were offset in large part by growth in inventories and accounts receivable. The noncash effect of depreciation and amortization expense was \$64.1 million and \$61.3 million in fiscal 1995 and fiscal 1994, respectively. As a result of internal capacity expansion, depreciation expense is expected to be higher in fiscal 1996 as these additions begin to ramp up.

Accounts receivable of \$181.3 million at the end of fiscal 1995 increased \$19.0 million or 11.7% from \$162.3 million at the end of fiscal 1994. This increase compared favorably to the 27% increase in fourth quarter sales between the two years as the rise in sales was more than offset by improved collection of receivables. As a percentage of annualized fourth quarter sales, accounts receivable was reduced to 17.6% at the end of fiscal 1995 compared to 20.0% at the end of fiscal 1994.

Inventories rose \$13.2 million or 10.1% over the prior year to \$144.0 million at the end of fiscal 1995. This increase was primarily due to a build in inventory levels needed to service increasing sales volumes. Year-end inventories as a percentage of annualized fourth quarter sales decreased from 16.1% in fiscal 1994 to 14.0% in fiscal 1995. In fiscal 1996, as additional manufacturing capacity becomes available, the Company intends to increase inventory levels in order to improve customer response times.

Accounts payable and accrued liabilities increased \$39.6 million or 29.4% compared to the balance at the end of fiscal 1994 due principally to increased expense activity related to the higher revenue level and increased capital expenditures in the fourth quarter of fiscal 1995 when compared to the year-earlier period. The increase in income taxes payable of 70.2% or \$20.7 million was primarily attributable to increased profitability in fiscal 1995 as compared to fiscal 1994.

The Company's principal investment activities during fiscal 1995 were in support of its manufacturing capacity expansion programs and included capital expenditures of \$212.7 million and an investment of \$14.0 million in a wafer fabrication company in Singapore.

Capital expenditures in fiscal 1995 were significantly higher than in fiscal 1994 with a significant portion of these expenditures related to the construction of the Company's first six-inch wafer fabrication module which was completed in fiscal 1995 at the Company's Limerick, Ireland manufacturing site. This module is now undergoing test and qualification and is expected to begin supplying production wafers before the end of the first half of fiscal 1996. It will be used initially to fabricate mixed-signal VLSI products on a 0.6 micron digital CMOS process. The capital expenditures and start-up costs associated with this expansion will be supported in part by grants of up to 10.1 million Irish Pounds (approximately \$16.4 million at October 28, 1995) from the Industrial Development Authority ("IDA") of Ireland. As of October 28, 1995, the Company had not received any grant monies under this agreement.

During fiscal 1995, the Company also began upgrading its existing Wilmington, Massachusetts wafer fabrication facility from four-inch to six-inch wafer production. This additional capacity, which will also become available in the latter half of fiscal 1996, will be used primarily for high-speed linear products. In addition, the Company purchased an existing six-inch wafer fabrication module located close to its Santa Clara, California site. This facility is being upgraded and modernized to produce advanced linear technology ICs, and is expected to go into production in the latter half of fiscal 1996. In the fourth quarter of fiscal 1995, the Company also completed construction of a new engineering, marketing and administrative facility in Wilmington, Massachusetts and commenced an expansion of the Company's test and back end facilities in the Philippines.

In fiscal 1995, the Company entered into a supply agreement with its primary wafer foundry, Taiwan Semiconductor Manufacturing Co., Ltd. ("TSMC"). Under this agreement, the Company will make a series of advance payments to TSMC aggregating \$22.4 million, payable over a three-year period, in order to secure access to a minimum level of wafer capacity over the period from 1996 to 1999. The first of such payments pursuant to this agreement was made in June 1995 and remaining payments are due in June of each year through 1998. The advance payments will be repaid to the Company each year in the form of credits against the prices of wafers purchased by the Company when such wafer purchases exceed a defined minimum.

In fiscal 1995, the Company made an equity investment of \$14.0 million in Chartered Semiconductor Manufacturing Pte., Ltd. ("CSM") in Singapore and invested an additional \$6.0 million in January 1996, in exchange for a less than 5% ownership interest. This investment is structured to provide access to CSM's new eight-inch 0.5 micron wafer fabrication facility through wafer supply and pricing commitments beginning in 1996. The investment in CSM is classified in the balance sheet line item, "Deferred Charges and Other Assets."

In January 1996, the Company entered into an additional agreement with CSM, whereby the Company will provide a total deposit of approximately \$20.0 million to be paid in several installments in 1996 and 1997. Under the terms of this agreement, the deposit will guarantee access to certain quantities of sub-micron wafers through fiscal 2000. If the Company does not purchase the minimum quantities under the agreement, the deposit will be forfeited for the value of the wafer shortfall up to the total amount of \$20.0 million. At the end of the agreement term, the Company's deposit will be returned, net of any forfeitures.

The Company currently plans to make capital expenditures of approximately \$275 million in fiscal 1996, primarily in connection with the continued expansion of its manufacturing capacity. In addition, the Company is continuing to explore various options for increasing its manufacturing capacity, including joint ventures, acquisitions, equity investments in or loans to wafer suppliers and construction of additional facilities.

Cash used in the Company's financing activities was principally for the repayment of a \$20.0 million term loan in the first quarter of fiscal 1995. Financing activities in fiscal 1995 also generated cash of \$10.1 million from the issuance of common stock under stock purchase and stock option plans.

At October 28, 1995, the Company's principal sources of liquidity included \$69.3 million of cash and cash equivalents and \$81.8 million of short-term investments. Short-term investments at the end of fiscal 1995 consisted of commercial paper, bankers' acceptances and Euro time deposits with maturities greater than three months and less than six months at the time of acquisition. The Company also has various lines of credit both in the U.S. and overseas, including a \$60 million credit facility in the U.S. which expires in 1998, all of which were substantially unused at the end of fiscal 1995. At the end of fiscal 1995, the Company's debt-to-equity ratio was 13%.

On December 18, 1995, the Company completed a public offering of \$230,000,000 of five-year 3-1/2% Convertible Subordinated Notes due December 1, 2000 with semiannual interest payments on June 1 and December 1 of each year, commencing June 1, 1996. The Notes are convertible, at the option of the holder, into the Company's common stock at any time after 60 days following the date of original issuance, unless previously redeemed, at a conversion price of \$27.913 per share, subject to adjustment in certain events. The net proceeds from the sale of the Notes were approximately \$224,000,000 after payment of the underwriting discount and expenses of the offering which will be amortized over the term of the Notes. As of December 31, 1995, the Company's total long-term debt was \$310,000,000, comprised of the \$230,000,000 of 3-1/2% Convertible Subordinated Notes and \$80,000,000 of 6 5/8% Notes.

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

#### LITIGATION

As set forth in Item 3 - "Business-Legal Proceedings," the Company is engaged in an enforcement proceeding brought by the International Trade Commission ("ITC") related to previously settled patent infringement litigation with Texas Instruments, Inc. The Company is also engaged in antitrust litigation with Maxim Integrated Products, Inc.

If it is determined that the Company has violated the ITC's cease and desist order of February 1992 (as modified in July 1993), the ITC could seek to impose penalties of up to \$100,000 per day of violation from the date of the cease and desist order (February 1992) or a sum equal to twice the value of goods determined to be sold in violation of the order.

The dismissal of Maxim's claims has been appealed. The Company believes it has meritorious defenses to Maxim's antitrust allegations and intends to vigorously defend the suit. Maxim asserted actual and consequential damages in the amount of \$14.1 million and claimed restitution and punitive damages in an unspecified amount. Under applicable law, Maxim would receive three times the amount of any actual damages suffered as a result of any antitrust violation. If the dismissal is overturned on appeal and Maxim's claims are upheld in a subsequent trial on the merits, in addition to potential damage awards the Company may be required to modify its relationships with its distributors.

Although the Company believes it should prevail in the matters described above, the Company is unable to determine their ultimate outcome or estimate the ultimate amount of liability, if any, at this time. An adverse resolution of these matters could have a material adverse effect on the Company's consolidated financial position or on its consolidated results of operations or cash flows in the period in which the matters are resolved.

## FACTORS AFFECTING FUTURE RESULTS

The Company's future operating results are difficult to predict and may be affected by a number of factors including the timing of new product announcements or introductions by the Company and its competitors, competitive pricing pressures, fluctuations in manufacturing yields, adequate availability of wafers and manufacturing capacity, changes in product mix and economic conditions in the United States and international markets. In addition, the semiconductor market has historically been cyclical and subject to significant economic downturns at various times. While the semiconductor industry in recent periods has experienced increased demand and production capacity constraints, it is uncertain how long these conditions will continue. As a result of these and other factors, there can be no assurance that the Company will not experience material fluctuations in future operating results on a quarterly or annual basis.

The Company's success depends in part on its continued ability to develop and market new products. There can be no assurance that the Company will be able to develop and introduce new products in a timely manner or that such products, if developed, will achieve market acceptance. In addition, the Company's growth is dependent on its continued ability to penetrate new markets such as the communications, computer and automotive segments of the electronics market, where the Company has limited experience and competition is intense. There can be no assurance that the markets being served by the Company will continue to grow; that the Company's existing and new products will meet the requirements of such markets; that the Company's products will achieve customer acceptance in such markets; that competitors will not force prices to an unacceptably low level or take market share from the Company; or that the Company can achieve or maintain profits in these markets. Also, some of the customers in these markets are less well established which could subject the Company to increased credit risk.

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

The Company's manufacturing facilities are operating at full capacity, and therefore the Company's business is currently constrained. While the Company is planning in fiscal 1996 to increase substantially its manufacturing capacity through both expansion of its production facilities and increased access to third-party foundries; there can be no assurance that the Company will complete the expansion of its production facilities or secure increased access to third party foundries in a timely manner; that the Company will not encounter unanticipated production problems at either its own facilities or at third-party foundries; or that the increased capacity will be sufficient to satisfy demand for its products. The Company relies, and plans to continue to rely, on third-party wafer fabricators to supply most of its wafers that can be manufactured using industry-standard digital processes, and such reliance involves several risks, including the absence of adequate guaranteed capacity and reduced control over delivery schedules, manufacturing yields and costs. Continued manufacturing capacity constraints could adversely affect the business of the Company's customers and cause them to seek alternative sources for the products currently obtained from the Company. In addition, the Company's capacity additions will result in a significant increase in operating expenses, and if revenue levels do not increase to offset these additional expense levels, the Company's future operating results could be adversely affected. The Company also believes that other semiconductor manufacturers are also expanding or planning to expand their production capacity over the next several years, and there can be no assurance that the expansion by the Company and its competitors will not lead to overcapacity in the Company's target markets, which could lead to price erosion that would adversely affect the Company's operating results.

For fiscal 1995, 56% of the Company's revenues were derived from customers in international markets. The Company has manufacturing facilities in Ireland, the Philippines and Taiwan. The Company is therefore subject to the economic and political risks inherent in international operations, including expropriation, air transportation disruptions, currency controls and changes in currency exchange rates, tax and tariff rates and freight rates. Although the Company engages in certain hedging transactions to reduce its exposure to currency exchange rate fluctuations, there can be no assurance that the Company's competitive position will not be adversely affected by changes in the exchange rate of the U.S. dollar against other currencies.

The semiconductor industry is characterized by frequent claims and litigation involving patent and other intellectual property rights. The Company has from time to time received, and may in the future receive, claims from third parties asserting that the Company's products or processes infringe their patents or other intellectual property rights. In the event a third party makes a valid intellectual property claim and a license is not available on commercially reasonable terms, the Company's operating results could be materially and adversely affected. Litigation may be necessary to enforce patents or other intellectual property rights of the Company or to defend the Company against claims of infringement, and such litigation can be costly and divert the attention of key personnel. See Item 3 - "Legal Proceedings" for information concerning pending litigation involving the Company. An adverse resolution of such litigation, may, in certain cases, have a material adverse effect on the Company's consolidated financial position or on its consolidated results of operations or cash flows in the period in which the litigation is resolved.

Because of these and other factors, past financial performance should not be considered an indicator of future performance. Investors should not use historical trends to anticipate future results and should be aware that the trading price of the Company's common stock may be subject to wide fluctuations in response to quarter-to-quarter variations in operating results, general conditions in the semiconductor industry, changes in earnings estimates and recommendations by analysts or other events.

ANALOG DEVICES, INC.  
ANNUAL REPORT ON FORM 10-K  
YEAR ENDED OCTOBER 28, 1995

ITEM 8

FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL INFORMATION

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The Board of Directors and Stockholders  
Analog Devices, Inc.

We have audited the accompanying consolidated balance sheets of Analog Devices, Inc. as of October 28, 1995, October 29, 1994 and October 30, 1993, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 28, 1995. Our audits also included the financial statement schedule listed in the index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Analog Devices, Inc. at October 28, 1995, October 29, 1994 and October 30, 1993, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 28, 1995, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Boston, Massachusetts  
November 28, 1995

except for the fifth paragraph of Note 4,  
as to which the date is December 18, 1995

## ANALOG DEVICES, INC.

## CONSOLIDATED STATEMENTS OF INCOME

Years ended October 28, 1995, October 29, 1994 and October 30, 1993  
(thousands except per share amounts)

		1995	1994	1993
REVENUE	Net sales . . . . .	\$941,546	\$773,474	\$666,319
COSTS AND EXPENSES	Cost of sales . . . . .	464,571	394,448	350,852
	Gross margin . . . . .	476,975	379,026	315,467
	Operating expenses:			
	Research and development . . . . .	134,265	106,869	94,107
	Selling, marketing, general and administrative . . . . .	184,943	170,341	158,675
		319,208	277,210	252,782
	Operating income . . . . .	157,767	101,816	62,685
	Nonoperating (income) expenses:			
	Interest expense . . . . .	4,201	7,149	7,184
	Interest income . . . . .	(8,103)	(5,165)	(1,417)
	Other . . . . .	2,234	2,921	1,393
		(1,668)	4,905	7,160
EARNINGS	Income before income taxes . . . . .	159,435	96,911	55,525
	Provision for (benefit from) income taxes:			
	Payable currently . . . . .	52,414	30,720	13,342
	Deferred (prepaid) . . . . .	(12,249)	(8,305)	(2,274)
		40,165	22,415	11,068
	Net income . . . . .	\$119,270	\$ 74,496	\$ 44,457
	Shares used to compute earnings per share . . . . .	119,039	115,907	113,543
	Earnings per share of common stock . . . . .	\$1.00	\$ .64	\$ .39

See accompanying notes.

## ANALOG DEVICES, INC.

## CONSOLIDATED BALANCE SHEETS

October 28, 1995, October 29, 1994 and October 30, 1993  
(thousands except share amounts)

ASSETS		1995	1994	1993
CURRENT ASSETS				
	Cash and cash equivalents.....	\$ 69,303	\$109,113	\$ 80,668
	Short-term investments.....	81,810	72,652	-
	Accounts receivable less allowances of \$4,439 (\$6,403 in 1994 and \$2,395 in 1993).....	181,327	162,337	145,663
	Inventories.....	143,962	130,726	150,422
	Prepaid income taxes.....	39,650	25,587	22,207
	Prepaid expenses and other current assets.....	9,966	5,042	4,240
	Total current assets.....	526,018	505,457	403,200
PROPERTY, PLANT AND EQUIPMENT, AT COST				
	Land and buildings.....	139,718	111,857	81,110
	Machinery and equipment.....	633,124	477,339	451,248
	Office equipment.....	41,260	36,613	33,170
	Leasehold improvements.....	42,165	33,070	26,429
		856,267	658,879	591,957
	Less accumulated depreciation and amortization.....	424,305	377,064	343,527
	Net property, plant and equipment.....	431,962	281,815	248,430
OTHER ASSETS				
	Intangible assets, net.....	17,230	19,262	21,306
	Deferred charges and other assets.....	26,438	9,337	5,556
	Total other assets.....	43,668	28,599	26,862
		\$1,001,648	\$815,871	\$678,492
		=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
	Short-term borrowings, current portion of long-term debt and capital lease obligations.....	\$ 2,359	\$ 23,153	\$ 2,341
	Accounts payable.....	100,217	74,506	48,779
	Deferred income on shipments to domestic distributors.....	27,588	18,881	16,417
	Income taxes payable.....	50,086	29,425	15,405
	Accrued liabilities.....	74,138	60,221	49,893
	Total current liabilities.....	254,388	206,186	132,835
NONCURRENT LIABILITIES				
	Long-term debt and capital lease obligations, less current portion.....	80,000	80,061	100,297
	Deferred income taxes.....	5,039	3,225	8,540
	Other noncurrent liabilities.....	6,255	4,484	4,802
	Total noncurrent liabilities.....	91,294	87,770	113,639
Commitments and Contingencies				
STOCKHOLDERS' EQUITY				
	Preferred stock, \$1.00 par value, 500,000 shares authorized, none outstanding.....	-	-	-
	Common stock, \$.16 2/3 par value, 300,000,000 shares authorized, 114,583,932 shares issued (75,252,112 in 1994 and 50,924,637 in 1993).....	19,098	12,542	8,488
	Capital in excess of par value, net of deferred compen- sation of \$3,181 (\$4,757 in 1994 and \$3,223 in 1993).....	149,775	141,159	143,502
	Retained earnings.....	481,464	362,194	287,698
	Cumulative translation adjustment.....	5,870	6,020	5,473
		656,207	521,915	445,161
	Less 51,876 shares in treasury, at cost (none in 1994 and 1,727,396 in 1993).....	241	-	13,143
	Total stockholders' equity.....	655,966	521,915	432,018
		\$1,001,648	\$815,871	\$678,492
		=====	=====	=====

See accompanying notes.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended October 28, 1995, October 29, 1994 and October 30, 1993 (thousands)		COMMON STOCK		CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	CUMULATIVE TRANSLATION ADJUSTMENT	TREASURY STOCK	
		SHARES	AMOUNT				SHARES	AMOUNT
Balance, October 31, 1992		50,192	\$ 8,366	\$133,714	\$243,241	\$4,772	(2,067)	\$(15,076)
ACTIVITY IN FISCAL 1993	Net income - 1993				44,457			
	Issuance of stock under stock plans and other, net of repurchases	733	122	8,072			340	1,933
	Compensation recognized under Restricted Stock Plan			1,716				
	Currency translation adjustment					701		
Balance, October 30, 1993		50,925	8,488	143,502	287,698	5,473	(1,727)	(13,143)
ACTIVITY IN FISCAL 1994	Net income - 1994				74,496			
	Issuance of stock under stock plans and other, net of repurchases	470	78	7,276			501	3,483
	Compensation recognized under Restricted Stock Plan			1,851				
	Tax benefit on exercise of nonqualified stock options and dis- qualifying dispositions under stock plans			2,166				
	Three-for-two stock split	23,857	3,976	(13,636)			1,226	9,660
	Currency translation adjustment					547		
Balance, October 29, 1994		75,252	12,542	141,159	362,194	6,020	-	-
ACTIVITY IN FISCAL 1995	Net income - 1995				119,270			
	Issuance of stock under stock plans and other, net of repurchases	1,137	190	10,462			(35)	(241)
	Compensation recognized under Restricted Stock Plan			1,672				
	Tax benefit on exercise of nonqualified stock options and dis- qualifying dispositions under stock plans			2,848				
	Three-for-two stock split	38,195	6,366	(6,366)			(17)	-
	Currency translation adjustment					(150)		
Balance, October 28, 1995		114,584	\$19,098	\$149,775	\$481,464	\$5,870	(52)	\$ (241)

See accompanying notes.

## ANALOG DEVICES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended October 28, 1995, October 29, 1994 and October 30, 1993  
(thousands)

	1995	1994	1993
<b>OPERATIONS</b>			
Cash flows from operations:			
Net income	\$ 119,270	\$ 74,496	\$ 44,457
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation and amortization	64,098	61,284	59,813
Deferred income taxes	1,829	(5,398)	(4,130)
Other noncash expenses	151	2,195	2,779
(Increase) in accounts receivable	(18,263)	(7,661)	(35,598)
(Increase) decrease in inventories	(14,402)	20,756	(6,268)
(Increase) in prepaid income taxes	(14,189)	(626)	(1,718)
(Increase) decrease in prepaid expenses and other current assets	(4,959)	(598)	224
Increase in accounts payable, deferred income and accrued liabilities	51,332	28,939	16,617
Increase in income taxes payable	23,784	14,063	13,922
Increase (decrease) in other liabilities	1,599	(839)	803
Total adjustments	90,980	112,115	46,444
Net cash provided by operations	210,250	186,611	90,901
<b>INVESTMENTS</b>			
Cash flows from investments:			
Additions to property, plant and equipment, net	(212,671)	(90,856)	(67,155)
Purchase of short-term investments available for sale	(166,225)	(72,652)	-
Maturities of short-term investments available for sale	162,067	-	-
Purchase of short-term investments held to maturity	(7,200)	-	-
Maturities of short-term investments held to maturity	2,200	-	-
Increase in other assets	(16,878)	(3,269)	(1,406)
Net cash used for investments	(238,707)	(166,777)	(68,561)
<b>FINANCING ACTIVITIES</b>			
Cash flows from financing activities:			
Payments on long-term debt	(20,000)	-	(20,194)
Proceeds from employee stock plans	10,126	9,821	9,995
Net increase (decrease) in variable rate borrowings	(787)	485	(29,895)
Payments on capital lease obligations	(237)	(335)	(313)
Proceeds from issuance of long-term debt	-	-	80,000
Net cash (used for) provided by financing activities	(10,898)	9,971	39,593
Effect of exchange rate changes on cash	(455)	(1,360)	1,005
Net increase (decrease) in cash and cash equivalents	(39,810)	28,445	62,938
Cash and cash equivalents at beginning of year	109,113	80,668	17,730
Cash and cash equivalents at end of year	\$ 69,303	\$ 109,113	\$ 80,668
<b>SUPPLEMENTAL INFORMATION</b>			
Cash paid during the year for:			
Income taxes	\$ 30,511	\$ 12,965	\$ 4,084
Interest	\$ 6,685	\$ 6,923	\$ 6,771

See accompanying notes.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED OCTOBER 28, 1995, OCTOBER 29, 1994 AND OCTOBER 30, 1993  
(ALL TABULAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## a. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated. The Company's fiscal year ends on the Saturday closest to the last day in October. Fiscal years 1995, 1994 and 1993 were each 52-week years.

Certain amounts reported in previous years have been reclassified to conform to the 1995 presentation.

## b. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash and cash equivalents are highly liquid investments with insignificant interest rate risk and maturities of three months or less at the time of acquisition. Investments with maturities between three and twelve months at time of acquisition are considered short-term investments. Short-term investments consist of debt securities such as commercial paper, time deposits, certificates of deposit and bankers acceptances.

Effective October 30, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (FAS 115), which creates certain classification categories for such investments, based on the nature of the securities and the intent and investment goals of the Company. FAS 115 has been adopted on a prospective basis, and the financial statements of prior years have not been restated. The cumulative effect of the change was not material. FAS 115 requires investments in debt and equity securities to be classified as "held-to-maturity," "available-for-sale," or "trading" at the time of purchase and for such designation to be reevaluated as of each balance sheet date. Held-to-maturity securities, which are carried at amortized cost, include only those securities the Company has the positive intent and ability to hold to maturity. Available-for-sale securities are carried at fair value with unrealized gains and losses, net of related tax, if any, reported as a separate component of stockholders' equity. Realized gains and losses, declines in value judged to be other than temporary, and interest income on all securities are included in earnings. At October 28, 1995, the Company did not own any securities classified as trading.

While it is the intent of management to hold securities to maturity, unforeseen events, while not generally expected, could cause the Company to liquidate certain securities prior to maturity. Accordingly, those securities which could readily be sold back to the seller are classified as available-for-sale. Securities, such as bank time deposits, which by their nature are typically held-to-maturity are classified as such. The following is a summary of available-for-sale and held-to-maturity securities at October 28, 1995:

	Available-for-Sale ----- Cost	Held-to-Maturity ----- Cost
-----		
Cash equivalents:		
Commercial paper	\$ 27,727	\$ -
Euro time deposits	-	31,300
Short-term investments:		
Commercial paper	73,874	-
Bankers' acceptances	2,936	-
Euro time deposits	-	5,000
-----		
Total	\$104,537	\$36,300
=====		

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Securities classified as available-for-sale and held-to-maturity at October 28, 1995 have contractual maturities of six months or less at time of acquisition. Because of the short term to maturity, and hence relative price insensitivity to changes in market interest rates, amortized cost approximates fair value for all of these securities. As such, no unrealized gains or losses were recorded at year end. There were no proceeds, gross realized gains or gross realized losses from sales of any securities during the year.

## c. INVENTORIES

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventories at October 28, 1995, October 29, 1994 and October 30, 1993 were as follows:

	1995	1994	1993
Raw materials	\$ 22,327	\$ 15,277	\$ 18,645
Work in process	77,526	69,771	80,418
Finished goods	44,109	45,678	51,359
Total inventories	\$143,962	\$130,726	\$150,422

A director of a raw material supplier was also a director of the Company through January 1995. Total purchases from this supplier approximated \$11,038,000 through January 1995, \$28,435,000 in 1994 and \$37,990,000 in 1993. Accounts payable to this supplier at October 29, 1994 and October 30, 1993 approximated \$1,090,000 and \$3,639,000, respectively. Another director of the Company was also a director of a raw material supplier through June 1993. Total purchases from this supplier approximated \$1,510,000 in 1993. The Company believes that the terms of these purchases were comparable to those available from other suppliers.

## d. PROPERTY, PLANT AND EQUIPMENT

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

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

Total depreciation and amortization of property, plant and equipment was \$62,066,000, \$59,240,000 and \$57,732,000 in 1995, 1994 and 1993, respectively.

## e. INTANGIBLE ASSETS

Intangible assets at October 28, 1995 consist of goodwill, patents and other intangibles. Goodwill is being amortized on a straight-line basis over a fifteen-year period. Patents and other intangibles are being amortized on a straight-line basis over their estimated economic lives which range from seven to fifteen years. Amortization expense for all intangible assets was \$2,032,000, \$2,044,000 and \$2,081,000 in 1995, 1994 and 1993, respectively. Accumulated amortization for all intangible assets was \$10,668,000, \$8,636,000 and \$6,657,000 at October 28, 1995, October 29, 1994 and October 30, 1993, respectively. On a periodic basis, the Company estimates the future undiscounted cash flows of the businesses to which the intangible assets relate in order to ensure that the carrying value of such intangible assets has not been impaired.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

## f. GRANT ACCOUNTING

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

## g. TRANSLATION OF FOREIGN CURRENCIES

The functional currency for the Company's foreign sales operations is the applicable local currency. Gains and losses resulting from translation of these foreign currencies into U.S. dollars are accumulated in a separate component of stockholders' equity. Transaction gains and losses are included in income currently, including those at the Company's principal foreign manufacturing operations where the functional currency is the U.S. dollar. Net foreign currency transaction gains or losses included in other expenses, net, were not material in fiscal 1995, 1994 and 1993.

## h. FOREIGN CURRENCY INSTRUMENTS AND INTEREST RATE AGREEMENTS

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

Forward foreign exchange contracts are utilized to manage the risk associated with currency fluctuations on certain firm sales and purchase commitments denominated in foreign currencies and certain non-U.S. dollar denominated asset and liability positions. The Company's forward foreign exchange contracts are primarily denominated in Japanese yen and certain European currencies and are for periods consistent with the terms of the underlying transactions, generally one year or less. The forward foreign exchange contracts that relate to firm, foreign currency sales and purchase commitments are designated and effective as hedges of firm, identifiable foreign currency commitments, and accordingly, the gains and losses resulting from the impact of currency exchange rate movements on these contracts are not recognized in operations until the underlying hedged transactions are recognized. Upon recognition, such gains and losses are recorded in operations as an adjustment to the carrying amount of the underlying transactions in the period in which these transactions are recognized. Unrealized gains and losses resulting from the impact of currency exchange rate movements on forward foreign exchange contracts designated to offset certain non-U.S. dollar denominated assets and liabilities are recognized as other income or expense in the period in which the exchange rates change and offset the foreign currency gains and losses on the underlying exposures being hedged. The contract amounts of forward foreign exchange contracts outstanding were \$181.7 million, \$136.4 million and \$107.9 million at October 28, 1995, October 29, 1994 and October 30, 1993, respectively.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The Company also may periodically enter into foreign currency options contracts to offset certain probable anticipated, but not firmly committed, foreign currency transactions related to the sale of product during the ensuing nine months. When the dollar strengthens significantly against the foreign currencies, the decline in value of future currency cash flows is partially offset by the gains in value of the purchased currency options designated as hedges. Conversely, when the dollar weakens, the increase in value of future foreign currency cash flows is reduced only by the premium paid to acquire the options. The Company's foreign currency option contracts are primarily denominated in Japanese yen and generally have maturities which do not exceed six months. These foreign currency option contracts are designated and effective as hedges of anticipated foreign currency sales transactions, and accordingly, the premium cost and any realized gains associated with these contracts are deferred and included in the consolidated balance sheet as prepaid expenses and accrued liabilities, respectively, until such time as the underlying sales transactions are recognized. Upon recognition, such premium costs and any realized gains are recorded in sales as a component of the underlying sales transactions being hedged. The contract amounts of foreign currency option contracts outstanding were \$26.9 million, \$28.6 million and \$29.0 million at October 28, 1995, October 29, 1994 and October 30, 1993, respectively. Deferred gains or losses attributable to foreign currency option contracts were not material at October 28, 1995.

The Company uses currency swap agreements to hedge the value of its net investment in certain of its foreign subsidiaries. Realized and unrealized gains and losses on such agreements related to the net foreign investment being hedged are recognized in the cumulative translation adjustment component of stockholders' equity, with the related amounts due to or from counterparties included in accrued liabilities or other current assets. The contract amount of currency swap agreements outstanding, which were principally denominated in Japanese yen, was \$10.0 million at both October 28, 1995 and October 29, 1994. Currency swap agreements outstanding at October 28, 1995 have maturities of one year and generally remain in effect until expiration.

The Company enters into interest rate swap and cap agreements to manage its exposure to interest rate movements by effectively converting a portion of its debt and certain financing arrangements from fixed to variable rates. Maturity dates of interest rate swap and cap agreements generally match those of the underlying debt or financing arrangements. These agreements, which have maturities of up to twelve years involve the exchange of fixed rate payments for variable rate payments without the exchange of the underlying principal amounts. Variable rates are based on six-month U.S. dollar LIBOR and reset on a semiannual basis. The differential between fixed and variable rates to be paid or received is accrued as interest rates change in accordance with the agreements and recognized over the life of the agreements as an adjustment to interest expense. The notional principal amounts of interest rate swap and cap agreements outstanding were \$50.3 million, \$50.5 million and \$40.0 million at October 28, 1995, October 29, 1994 and October 30, 1993.

The cash requirements of the above-described financial instruments approximate their fair value. Cash flows associated with these financial instruments are classified consistent with the cash flows from the transactions being hedged.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

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

i. CONCENTRATIONS OF CREDIT RISK

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

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

The Company sells its products to distributors and original equipment manufacturers involved in a variety of industries including industrial automation, instrumentation, military/aerospace, and to an increasing degree, communications, computers and peripherals, and high-performance consumer electronics. The Company has adopted credit policies and standards to accommodate growth into these markets. The Company believes that any risk of accounting loss with respect to trade accounts receivable is limited due to the diversity of its products, end customers and geographic sales areas. The Company performs continuing credit evaluations of its customers financial condition and although the Company generally does not require collateral, letters of credit may be required from its customers in certain circumstances. Due to the Company's credit evaluation and collection process, bad debt losses have been insignificant.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

## j. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	OCTOBER 28, 1995		OCTOBER 29, 1994		OCTOBER 30, 1993	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
<b>Assets:</b>						
Cash and cash equivalents	\$ 69,303	\$ 69,303	\$ 109,113	\$109,113	\$ 80,668	\$ 80,668
Short-term investments	81,810	81,810	72,652	72,652	-	-
<b>Liabilities:</b>						
Short-term borrowings	(2,299)	(2,299)	(2,917)	(2,917)	(2,006)	(2,006)
Long-term debt, including current portion	(80,000)	(80,130)	(100,000)	(93,800)	(100,000)	(102,400)
<b>Foreign Currency Instruments and Interest Rate Agreements:</b>						
Interest rate swap and cap agreements	(30)	(175)	5	(3,065)	98	89
Forward foreign currency exchange contracts	7,798	9,089	(1,458)	641	727	25
Foreign currency option contracts	388	1,645	308	41	460	468
Currency swap agreements	413	485	(853)	(840)	-	-

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

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

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

Long-term debt-The fair value of long-term debt is estimated based on current interest rates available to the Company for debt instruments with similar terms, degree of risk and remaining maturities.

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

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

Foreign currency option contracts and currency swap agreements-The fair values of foreign currency option contracts and currency swap agreements are obtained from dealer quotes. These values represent the estimated net amount the Company would receive or pay to terminate the agreements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

## k. REVENUE RECOGNITION

Revenue from product sales to end users is recognized upon shipment. A portion of the Company's sales are made to domestic distributors under agreements allowing for price protection and certain rights of return on merchandise unsold by the distributors. Because of the uncertainty associated with pricing concessions and future returns, the Company defers recognition of such sales and related gross margin until the merchandise is sold by the distributors. For sales to international distributors, the Company recognizes the sale upon shipment to the distributor, but provides specific reserves for possible returns and allowances.

## l. INCOME TAXES

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109). FAS 109 requires a change from the deferred method of accounting for income taxes under APB Opinion 11 to the asset and liability method of accounting for income taxes. Under the asset and liability method of FAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under FAS 109, the effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Deferred tax asset valuation allowances are recorded to offset deferred tax assets if it is more likely than not that some or all of the deferred tax asset will not be realized. The Company established a valuation allowance, primarily for financial and tax capital losses, based on the assessment that realization of such character of income is not assured.

Effective October 31, 1993 the Company adopted FAS 109. The adoption of FAS 109 was not material to the consolidated financial statements. As permitted by FAS 109, prior years' financial statements have not been restated.

Pursuant to the deferred method under APB Opinion 11, which was applied at October 30, 1993 and in prior fiscal years, deferred income taxes are recognized for income and expense items that are reported in different years for financial reporting purposes and income tax purposes using the tax rate applicable for the year of calculation. Under the deferred method, deferred taxes are not adjusted for subsequent changes in tax rates.

## m. STOCK SPLIT

On November 28, 1995, the Company's Board of Directors authorized a three-for-two stock split effected in the form of a 50% stock dividend distributed on January 3, 1996 to stockholders of record December 12, 1995. The split was accomplished through the issuance of common stock. All references to share and per share amounts in this report have been restated to reflect the split.

## n. EARNINGS PER SHARE OF COMMON STOCK

Primary earnings per common share are computed based on the weighted average number of common shares outstanding during the year, adjusted for incremental shares assumed issued for dilutive common stock equivalents. Fully diluted earnings per share do not differ materially from primary earnings per share.

## o. NEW ACCOUNTING STANDARDS

The Company has not yet adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" which will require adoption in fiscal 1997. The Company is in the process of determining the effect of adoption of these statements on its consolidated financial statements and related disclosures.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

## 2. INDUSTRY AND GEOGRAPHIC SEGMENT INFORMATION

## INDUSTRY

The Company operates predominantly in one industry segment: the design, manufacture and marketing of a broad line of high- performance linear, mixed-signal and digital integrated circuits that address a wide range of real-world signal processing applications.

## GEOGRAPHIC INFORMATION

The Company operates in three major geographic areas. Information on the Company's geographic operations is set forth in the table below. The predominant countries comprising European operations are England, France, Germany and Ireland. The predominant country comprising Asian operations is Japan. For segment reporting purposes, sales generated by North American operations in the table include export sales of \$97,446,000, \$96,700,000 and \$71,542,000 in 1995, 1994 and 1993, respectively. Transfers between geographic areas are based on market comparables and are consistent with prevailing tax regulations. Operating income reflects the allocation of corporate expenses of \$23,190,000, \$19,718,000 and \$17,174,000 in 1995, 1994 and 1993, respectively, to the appropriate geographic area based upon their beneficial and causal relationship to each area. Corporate identifiable assets consist of cash equivalents, short-term investments and intangible assets.

GEOGRAPHIC SEGMENT INFORMATION		1995	1994	1993
SALES	North America, including export . . . .	\$ 509,625	\$440,609	\$363,671
	Europe . . . . .	264,401	198,000	196,310
	Asia . . . . .	167,520	134,865	106,338
	Total sales . . . . .	\$ 941,546	\$773,474	\$666,319
TRANSFERS BETWEEN AREAS	North America, including export . . . .	286,021	\$192,442	\$161,081
	Europe . . . . .	141,925	110,801	94,948
	Asia . . . . .	30,180	19,603	12,569
	Total transfers between areas . . . .	\$ 458,126	\$322,846	\$268,598
OPERATING INCOME	North America, including export . . . .	92,640	\$ 52,706	\$ 26,546
	Europe . . . . .	63,627	47,170	35,205
	Asia . . . . .	1,500	1,940	934
	Total operating income . . . . .	\$ 157,767	\$101,816	\$ 62,685
IDENTIFIABLE ASSETS	North America, including export . . . .	\$ 440,660	\$354,881	\$367,347
	Europe . . . . .	294,094	176,755	147,979
	Asia . . . . .	108,827	95,988	78,215
	Corporate . . . . .	158,067	188,247	84,951
	Total assets . . . . .	\$1,001,648	\$815,871	\$678,492

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

## 3. ACCRUED LIABILITIES

Accrued liabilities at October 28, 1995, October 29, 1994 and October 30, 1993 consisted of the following:

	1995	1994	1993
Accrued compensation and benefits	\$47,785	\$33,908	\$31,652
Other	26,353	26,313	18,241
<b>Total accrued liabilities</b>	<b>\$74,138</b>	<b>\$60,221</b>	<b>\$49,893</b>

## 4. DEBT AND CREDIT FACILITIES

## 6 5/8% NOTES

On March 11, 1993, the Company completed a public offering of \$80 million of seven-year 6 5/8% Notes due March 1, 2000 with semiannual interest payments on March 1 and September 1. The net proceeds of the offering were approximately \$79 million after payment of the underwriting discounts and expenses of the offering which were deferred and are being amortized to interest expense over the term of the Notes. Simultaneous with the sale of the Notes, the Company entered into an interest rate swap and cap agreement for the term of the Notes having a notional principal amount of \$40 million whereby the effective net interest rate on \$40 million of the Notes will be the six-month LIBOR rate (up to a maximum of 7%) plus 1.4%. For the year ended October 28, 1995, the net effective interest rate on \$40 million of the Notes was 7.8% after giving effect to the interest rate swap agreement.

## REVOLVING CREDIT AGREEMENT AND LINES OF CREDIT

The Company has a revolving credit agreement with several banks which commits them to lend up to \$60,000,000. The terms of the credit agreement provide that interest on U.S. dollar borrowings may not exceed the greater of the prime rate or the federal funds rate plus .50%. Under this agreement, the Company also has the option to borrow both U.S. dollars and foreign currencies at interest rates tied to various money market instruments, customarily below the prime rate. Under the credit agreement, the Company is currently required to pay fees of .05 of 1% per annum on the unused portion of the lending commitment and .15 of 1% per annum on the total amount of the committed facility. All borrowings under the credit agreement are due no later than September 8, 1998. Borrowing from banks not participating in the agreement is permitted as long as the Company maintains certain required financial ratios. The credit agreement requires the Company to maintain stated minimum net worth and current ratio levels, plus a stated maximum ratio of total liabilities to net worth. In addition, the credit agreement restricts the aggregate of all cash dividend payments declared or made subsequent to January 30, 1993 to an amount not exceeding \$29,734,000 plus 50% of the consolidated net income of the Company for the period from January 31, 1993 through the end of the Company's then most recent fiscal quarter. At October 28, 1995 this amount was equal to \$144,782,000. At October 28, 1995, the Company was in compliance with all covenants under the credit agreement. There are no compensating balance requirements under the credit agreement. In addition to the credit agreement, the Company also has various unsecured, uncommitted money market lines of credit with its credit agreement and other banks which provide for short-term borrowings.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The weighted average interest rate of U.S. dollar borrowings under the credit agreement and the uncommitted money market lines of credit was 4.0% during 1993. There were no variable rate U.S. dollar borrowings under the credit agreement or the uncommitted money market lines of credit during 1995 and 1994 nor were there any such borrowings outstanding at October 28, 1995, October 29, 1994 or October 30, 1993. The weighted average interest rates of foreign currency borrowings under foreign lines of credit were 7.2%, 8.7% and 10.9% during 1995, 1994 and 1993, respectively. The weighted average interest rates of foreign currency borrowings were 6.2%, 7.4% and 11.8% at October 28, 1995, October 29, 1994 and October 30, 1993, respectively. There were \$2.3 million of foreign currency borrowings outstanding at October 28, 1995, which were at prevailing money market rates for the respective currencies. Borrowings under the Company's credit agreement and lines of credit are generally due within six months.

Long-term debt, including current maturities, at October 28, 1995, October 29, 1994 and October 30, 1993 consisted of the following:

	1995	1994	1993
6 5/8% Notes due 2000	\$80,000	\$ 80,000	\$ 80,000
7.18% term loan	-	20,000	20,000
	80,000	100,000	100,000
Less current portion of long-term debt	-	20,000	-
Long-term debt	\$80,000	\$ 80,000	\$100,000

On December 18, 1995, the Company completed a public offering of \$230,000,000 of five-year 3-1/2% Convertible Subordinated Notes due December 1, 2000 with semiannual interest payments on June 1 and December 1 of each year, commencing June 1, 1996. The Notes are convertible, at the option of the holder, into the Company's common stock at any time after 60 days following the date of original issuance, unless previously redeemed, at a conversion price of \$27.913 per share, subject to adjustment in certain events. The net proceeds of the offering were approximately \$224 million after payment of the underwriting discount and expenses of the offering which will be amortized over the term of the Notes. As of December 31, 1995, the Company's total long-term debt was \$310,000,000 comprised of the \$230,000,000 of 3-1/2% Convertible Subordinated Notes and \$80,000,000 of 6 5/8% Notes.

Aggregate principal payments on long-term debt and short-term borrowings for the following fiscal years, after consideration of the \$230.0 million of 3-1/2% Convertible Subordinated Notes, are: 1996-\$2.3 million; 2000-\$80.0 million; and 2001-\$230.0 million.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## 5. LEASE COMMITMENTS

The Company leases certain of its facilities and equipment under various operating and capital leases which expire at various dates through 2010. The lease agreements frequently include renewal and purchase provisions and require the Company to pay taxes, insurance and maintenance costs.

Total rental expense under operating leases was \$11,243,000, \$9,985,000 and \$8,853,000 in 1995, 1994 and 1993, respectively.

The following is a schedule of future minimum lease payments under capital leases and rental payments required under long-term operating leases at October 28, 1995:

FISCAL YEARS	OPERATING LEASES	CAPITAL LEASES
1996	\$ 8,494	\$ 77
1997	6,835	-
1998	4,952	-
1999	4,740	-
2000	4,023	-
Later Years	16,979	-
Total	\$46,023 =====	\$ 77
Less amount representing interest		(17) ---
Present value of minimum lease payments		\$ 60 =====

Net property, plant and equipment includes the following for capital leases:

	1995	1994	1993
Land and buildings	\$ 1,828	\$ 1,828	\$ 1,828
Machinery and equipment	829	829	829
Less accumulated amortization	2,657 (2,639)	2,657 (2,468)	2,657 (2,231)
Net capital leases	\$ 18	\$ 189	\$ 426

## 6. COMMITMENTS AND CONTINGENCIES

## LITIGATION

The Company was a defendant in two lawsuits brought in Texas by Texas Instruments, Inc. ("TI"), alleging patent infringement, including patent infringement arising from certain plastic encapsulation processes, and seeking an injunction and unspecified damages against the Company. The alleged infringement of one of these patents is also the subject matter of a proceeding brought by TI against the Company before the International Trade Commission ("ITC"). On January 10, 1994, the ITC brought an enforcement proceeding against the Company alleging that the Company had violated the ITC's cease and desist order of February 1992 (as modified in July 1993), which prohibited the Company's importation of certain plastic encapsulated circuits, and seeking substantial penalties against the Company for these alleged violations. If it is determined that the Company has violated the cease and desist order, the ITC could seek to impose penalties of up to \$100,000 per day of violation from the date of the cease and desist order (February 1992) or a sum equal to twice the value of the goods determined to be sold in violation of the order. In addition, in June 1992, the Company commenced a lawsuit against TI in Massachusetts alleging certain TI digital signal processors infringed one of the Company's patents.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Effective April 1, 1995, the Company and TI settled both Texas lawsuits and the Massachusetts lawsuit principally by means of a royalty-free cross license of certain of the Company's and TI's patents. On April 25, 1995, the Company filed with the ITC a motion to terminate the ITC enforcement proceeding on the grounds that further action by the ITC is unnecessary in light of the Company's settlement with TI. On May 8 1995, an Administrative Law Judge issued a recommended determination to the ITC to grant the Company's motion to terminate the ITC proceeding. The investigative office of the ITC has opposed the motion, claiming that, notwithstanding the Company's settlement with TI, the Company's alleged violation of the ITC's cease and desist order warrants the imposition of substantial penalties. The Company's motion is pending before the ITC.

The Company is a defendant in a lawsuit brought by Maxim Integrated Products, Inc. ("Maxim") in the United States District Court for the Northern District of California seeking an injunction against, and claiming damages for, alleged antitrust violations and unfair competition in connection with distribution arrangements between the Company and certain distributors. Maxim alleged that certain distributors ceased doing business with Maxim as a result of the distribution arrangements between the distributors and the Company, resulting in improper restrictions to Maxim's access to channels by which it distributes its products. Maxim asserted actual and consequential damages in the amount of \$14.1 million and claimed restitution and punitive damages in an unspecified amount. Under applicable law, Maxim would receive three times the amount of any actual damages suffered as a result of any antitrust violation. On September 7, 1994, Maxim's claim was dismissed for lack of evidence. Maxim has appealed this ruling and oral argument of the appeal was held in January 1996.

Although the Company believes it should prevail in the matters described in the previous three paragraphs, the Company is unable to determine their ultimate outcome or estimate the ultimate amount of liability, if any, at this time. An adverse resolution of these matters could have a material adverse effect on the Company's consolidated financial position or on its consolidated results of operations or cash flows in the period in which the matters are resolved.

In addition, from time to time as a normal incidence of the nature of the Company's business, various claims, charges and litigation are asserted or commenced against the Company arising from or related to contractual matters, patents, personal injury, environmental matters and product liability. Such litigation includes patent infringement actions brought against the Company by Sextant Avionique, S.A. ("Sextant") in Paris, France, which claims that the Company's accelerometer infringes certain Sextant patents and seeks to enjoin such infringement. While there can be no assurance that the Company will prevail in all of these matters, the Company does not believe that these matters will have a material adverse effect on the Company's consolidated financial position or consolidated results of operations. However, an adverse resolution could have an adverse effect on the Company's consolidated results of operations in the quarter in which these matters are resolved.

## IRISH GRANTS

During fiscal 1995, the Company's manufacturing facility in Limerick, Ireland entered into a grant agreement with Ireland's Industrial Development Authority ("IDA") under which the Company will receive grant monies of up to 10.1 million Irish Pounds (approximately \$16.4 million at October 28, 1995) for capital and start-up costs associated with the wafer fabrication expansion at this facility. As of October 28, 1995, the Company had not received any grant monies under this agreement. The Company's Irish facility has previously received operating and capital grants from the IDA; a liability to repay up to \$13.1 million of the grants received by the Company would arise in the unlikely event the Company should discontinue its Irish operations prior to the commitment periods noted in the grant agreements which expire at various dates through 1999.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## WAFER SUPPLY AGREEMENTS

In May 1995, the Company entered into a wafer supply agreement with its primary foundry, Taiwan Semiconductor Manufacturing Co., Ltd. ("TSMC"). The terms of this agreement provide for a series of advance payments to TSMC aggregating \$22.4 million, payable over a three-year period, to be used by TSMC in the expansion of their wafer fabrication facility in Taiwan. In return, the Company will be provided access to a minimum level of wafer capacity over the period from 1996 to 1999. The first payment to TSMC was made in June 1995. The remaining payments under the agreement are due in June 1996, June 1997 and June 1998. The advance payments will be repaid to the Company each year in the form of credits against the prices of wafers purchased by the Company when such wafer purchases exceed a defined minimum.

In March 1995, the Company entered into an agreement with an external wafer foundry, Chartered Semiconductor Manufacturing Pte., Ltd. ("CSM"), which provides for an equity investment of approximately \$20.0 million to be applied primarily towards the construction of a new CSM eight-inch, 0.5 micron wafer fabrication facility in Singapore. In consideration for its investment, the Company receives a minority equity position of less than 5% in CSM and will receive guaranteed foundry capacity and pricing commitments for sub-micron wafers manufactured at CSM's new facility beginning in 1996. The Company invested \$14.0 million in fiscal 1995 in connection with this agreement. The Company's investment in CSM is included in the balance sheet caption, "Deferred Charges and Other Assets."

## OTHER

Under the terms of the lease agreement related to the Company's headquarters facility in Norwood, Massachusetts, the Company has agreed to assume the note related to the property in the case of default by the lessor. Assumption of the note, which was \$10.3 million at October 28, 1995, would entitle the Company to a first lien on the property. In addition, the Company may be subject to an incremental rent payment if the Company were to either default on the lease or not exercise its option to extend the lease at the end of the current fifteen-year term. This payment would be the present value of the balance of the lessor's debt related to the property in excess of \$6.5 million at the end of the current lease term. As of October 28, 1995, the Company's unrecorded financial risk of loss under this agreement was \$2.0 million in the unlikely event of default.

## 7. STOCKHOLDERS' EQUITY

## COMMON STOCK

In March 1995, the stockholders approved an amendment to the Company's Articles of Organization to increase the authorized number of shares of common stock from 150,000,000 to 300,000,000. In December 1995, the Board of Directors authorized an amendment to the Company's Articles of Organization to increase the authorized number of shares of common stock from 300,000,000 to 450,000,000 subject to stockholder approval in March 1996.

## STOCK PLANS

The 1988 Stock Option Plan provides for the issuance of nonstatutory and incentive stock options to purchase up to 15,525,000 shares of common stock. Under this plan, options may be granted to key employees of the Company and its subsidiaries at a price not less than 100% of the fair market value of the underlying stock on the date of grant. The Company's 1980 Stock Option Plan was terminated upon adoption of the 1988 Stock Option Plan; however, options to purchase common stock remain outstanding under this plan. In December 1995, the Board of Directors authorized an increase in the number of shares of common stock available for issuance under the 1988 Stock Option Plan from 15,525,000 to 22,425,000 subject to stockholder approval in March 1996.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Under the 1994 Director Stock Option Plan, each nonemployee director is granted annually for four years a nonstatutory option to purchase 7,875 shares of common stock at an exercise price equal to the fair market value on the date of grant. A total of 300,000 shares of common stock may be issued under this plan. These options are exercisable on a cumulative basis in annual installments of 33 1/3% each on the first, second and third anniversaries of the date of grant. The Company also has options outstanding under the 1992 Director Option Plan and the 1989 Director Stock Option Plan. Options granted under these plans are exercisable on a cumulative basis in annual installments of 33 1/3% each on the third, fourth and fifth anniversaries of the date of grant.

Transactions under the Company's stock option plans are summarized in the table below:

STOCK OPTION ACTIVITY	SHARES AVAILABLE FOR GRANT	OPTIONS OUTSTANDING		AGGREGATE PRICE
		NUMBER	OPTION PRICE PER SHARE	
Balance, October 31, 1992	447	9,478	\$ 2.61 to \$ 8.17	\$38,317
Additional shares authorized for 1988 Stock Option Plan	7,875	-	-	-
Shares authorized for 1992 Director Option Plan	225	-	-	-
Options granted	(261)	261	\$ 4.39 to \$10.72	1,669
Options exercised	-	(1,599)	\$ 2.61 to \$ 7.00	(7,695)
Options canceled (1)	495	(576)	\$ 2.61 to \$ 7.00	(2,224)
Shares canceled upon termination of 1989 Director Stock Option Plan	(68)	-	-	-
Balance, October 30, 1993	8,713	7,564	\$ 2.61 to \$10.72	30,067
Options granted	(3,091)	3,091	\$ 9.39 to \$13.33	30,482
Options exercised	-	(1,024)	\$ 2.61 to \$ 8.17	(4,250)
Options canceled (1)	185	(186)	\$ 2.61 to \$11.44	(844)
Balance, October 29, 1994	5,807	9,445	\$ 2.61 to \$13.33	55,455
Shares authorized for 1994 Director Stock Option Plan	300	-	-	-
Options granted	(2,662)	2,662	\$13.67 to \$23.42	36,887
Options exercised	-	(1,062)	\$ 2.61 to \$ 7.00	(3,960)
Options canceled (1)	371	(393)	\$ 2.61 to \$13.67	(2,989)
Shares canceled upon termination of 1992 Director Option Plan	(68)	-	-	-
Balance, October 28, 1995	3,748	10,652	\$ 2.61 to \$23.42	\$85,393
Options exercisable at October 28, 1995		2,984	\$ 2.61 to \$13.67	\$11,212

(1) Options canceled which were originally issued from the 1988 Stock Option Plan are available for subsequent grants. The remaining options canceled in 1995, 1994 and 1993 were issued from the 1980 Stock Option and 1992 Director Option Plans under which no further options will be granted.

The Company has a stock purchase plan that allows eligible employees to purchase, through payroll deductions, shares of the Company's common stock at 85% of the fair market value at specified dates. Employees purchased 626,800 shares in 1995 (785,700 and 1,131,800 in 1994 and 1993, respectively) for \$6.9 million (\$6.0 million and \$4.2 million in 1994 and 1993, respectively). At October 28, 1995, 1,505,700 common shares remained available for issuance under the stock purchase plan.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Under the 1991 Restricted Stock Plan, a maximum of 1,575,000 shares of common stock may be awarded by the Company to key employees for nominal consideration. This plan succeeded the Company's 1978 Restricted Stock Plan which provided for the issuance of up to 5,529,600 shares of common stock. Shares awarded from both plans are restricted as to transfer, usually for a period of five years and, under certain conditions, may be subject to repurchase by the Company at the original purchase price per share. Shares awarded under the Company's restricted stock plans, net of cancellations, for 1995, 1994 and 1993 were 15,000, 353,250 and 31,500, respectively. The fair market value of the shares at the date of award was accounted for as deferred compensation and is being amortized over the restricted period. During 1995, 1994 and 1993, \$1,672,000, \$1,851,000 and \$1,716,000, respectively, of such compensation was charged to expense. At October 28, 1995, there were 444,000 shares of common stock available for issuance under the 1991 Restricted Stock Plan. In December 1995, the Board of Directors authorized an increase in the number of shares of common stock available for issuance under the 1991 Restricted Stock Plan from 1,575,000 to 2,025,000 subject to stockholder approval in March 1996.

## WARRANTS

In 1990, the Company issued warrants for the purchase of 2,250,000 shares of common stock. Each warrant entitles the holder to purchase one share of the Company's common stock at an exercise price of \$5.33 per share, subject to certain adjustments, anytime prior to the expiration of the warrants on August 7, 1997. At October 28, 1995, all of the warrants were outstanding.

As of October 28, 1995, a total of 18,603,000 common shares were reserved for issuance under the Company's stock plans and warrant agreement.

## PREFERRED STOCK

The Company has 500,000 authorized shares of \$1.00 par value Preferred Stock. The Board of Directors is authorized to fix designations, relative rights, preferences and limitations on the preferred stock at the time of issuance. The Company had previously authorized 35,000 shares of such Preferred Stock as Series A Convertible Preferred Stock, of which 28,066 shares were sold in prior years. As of June 14, 1990, all of these shares had been fully converted to common stock.

## COMMON STOCK PURCHASE RIGHTS

In 1988, the Board of Directors adopted a Stockholder Rights Plan which was amended in 1989. Pursuant to the Stockholder Rights Plan, each share of common stock has an associated right. Under certain circumstances, each right entitles the holder to purchase from the Company one share of common stock at an exercise price of \$26.67 per share, subject to adjustment.

The rights are not exercisable and cannot be transferred separately from the common stock until ten days after a person acquires 20% or more or makes a tender offer for 30% or more of the Company's common stock. If, after the rights become exercisable, (i) any person becomes the owner of 20% or more of the Company's common stock, or (ii) the Company is the surviving entity in a merger with a 20% or more stockholder, or (iii) a 20% or more stockholder engages in certain "self-dealing" transactions with the Company, each right not owned by such person will entitle its holder to purchase, at the right's exercise price, common stock having a value of two times the exercise price of the right. In addition, if the Company is either (i) acquired in a merger or other business combination in which the Company is not the surviving entity, or (ii) sells or transfers 50% or more of its assets or earning power to another party, each right will entitle its holder to purchase, upon exercise, common stock of the acquiring Company having a value equal to two times the exercise price of the right.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The rights have certain anti-takeover effects, in that they would cause substantial dilution to a person or group that attempts to acquire a significant interest in the Company on terms not approved by the Board of Directors. The rights expire on February 12, 1998 but may be redeemed by the Company for \$.0089 per right at any time prior to the tenth day following a person's acquisition of 20% or more of the Company's common stock. So long as the rights are not separately transferable, the Company will issue one right with each new share of common stock issued.

## 8. RETIREMENT PLANS

The Company and its subsidiaries have various savings and retirement plans covering substantially all employees. The Company maintains a defined contribution plan for the benefit of its eligible United States employees. This plan provides for Company contributions of up to 5% of each participant's total eligible compensation. In addition, the Company contributes an amount equal to each participant's contribution, if any, up to a maximum of 2% of each participant's total eligible compensation. The Company also has various defined benefit pension and other retirement plans for certain foreign employees that are consistent with local statutes and practices. The total expense related to all of the Company's retirement plans in 1995, 1994 and 1993 was \$14.0 million, \$12.6 million and \$11.9 million, respectively, which primarily consists of costs related to the domestic defined contribution plan. Also included in total expense is pension expense related to foreign defined benefit plans of \$2.5 million for 1995, \$2.5 million for 1994 and \$3.0 million for 1993. Summary data related to these foreign plans at October 28, 1995 is as follows: accumulated benefit obligation, substantially vested, of \$22.2 million; projected benefit obligation of \$35.2 million; plan assets at fair value of \$32.4 million; discount rates ranging from 4% to 15%; compensation increase rates ranging from 3% to 12% and expected rate of return on assets ranging from 5% to 15%.

In fiscal 1995, the Company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (FAS 112). FAS 112 requires that postemployment benefits, primarily salary continuation and insurance continuation, be accrued for at the time the benefit is earned by the employee. Adoption of FAS 112 did not have a material impact on the Company's consolidated financial statements.

## 9. INCOME TAXES

As discussed in Note 1(1), the Company adopted FAS 109 as of October 31, 1993.

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

	LIABILITY METHOD		DEFERRED METHOD
	1995	1994	1993
U.S. federal statutory tax rate	35.0%	35.0%	34.8%
Income tax provision reconciliation:			
Tax at statutory rate	\$ 55,803	\$33,919	\$19,322
Irish income subject to lower tax rate	(13,436)	(7,299)	(7,951)
Change in valuation allowance	-	(4,265)	-
State income taxes, net of federal benefit	1,833	1,076	437
Research and development tax credits	(325)	(1,074)	347
Foreign Sales Corporation	(3,200)	(731)	-
Amortization of goodwill	503	503	500
Net foreign tax in excess of (less than)			
U.S. federal statutory tax rate	(1,076)	247	(203)
Foreign tax credits (utilized) unutilized	-	-	(1,444)
Other, net	63	39	60
Total income tax provision	\$ 40,165	\$22,415	\$11,068

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

	1995	1994	1993
Pretax income:			
Domestic	\$ 76,230	\$35,621	\$ 8,228
Foreign	83,205	61,290	47,297
	\$159,435	\$96,911	\$55,525

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

	1995	1994	1993
Current:			
Federal	\$32,860	\$18,479	\$ 3,884
Foreign	16,734	10,576	8,788
State	2,820	1,665	670
Total current	\$52,414	\$30,720	\$13,342
Deferred (prepaid):			
Federal	\$(10,887)	\$(7,601)	\$(2,313)
Foreign	(1,362)	(704)	39
Total deferred (prepaid)	\$(12,249)	\$(8,305)	\$(2,274)

The Company's practice is to reinvest indefinitely the earnings of certain international subsidiaries. Accordingly, no U.S. income taxes have been provided for approximately \$277,308,000 of unremitted earnings of international subsidiaries.

For the Company's fiscal years ended October 28, 1995 and October 29, 1994 deferred income taxes reflect the tax effects of differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. A deferred tax asset must be recognized for the tax benefit of deductible temporary differences, net operating losses, net capital losses and tax credit carryovers. A valuation allowance is recognized if it is "more likely than not" that some or all of the deferred tax asset will not be realized. The Company maintains a valuation allowance for deferred tax assets, which was \$10.0 million at both October 28, 1995 and October 29, 1994. The Company believes that the realization of deferred tax assets was not assured for book and tax capital losses and book basis foreign tax credits. For tax purposes, the Company has a capital loss carryforward of approximately \$6,453,000 expiring through the year 2000, principally in 1997.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The significant components of the Company's deferred tax assets and liabilities for the fiscal years ended October 28, 1995 and October 29, 1994 are as follows:

	1995	1994
-----		
Deferred tax assets:		
Inventory reserves	\$ 18,309	\$ 12,261
Capital loss carryover	8,513	8,513
Deferred income on shipments to domestic distributors	7,898	5,254
Reserves for employee benefits	3,780	2,890
Restricted stock	2,031	2,123
Alternative Minimum Tax carryover	-	1,764
Intercompany profits in foreign inventories	5,335	1,709
Reserve for bad debts	1,171	1,650
Foreign tax credits	2,301	1,522
Other	6,351	3,314
-----		
Total gross deferred tax assets	55,689	41,000
Valuation allowance for deferred tax assets	(10,035)	(10,035)
-----		
Total deferred tax assets	\$ 45,654	\$ 30,965
-----		
Deferred tax liabilities:		
Depreciation	\$(11,043)	\$ (8,603)
-----		
Total gross deferred liabilities	\$(11,043)	\$ (8,603)
-----		
Net deferred tax assets	\$ 34,611	\$ 22,362
=====		

The components of the provision for deferred income taxes for the fiscal year ended October 30, 1993 are as follows:

	1993
-----	
Components of deferred (prepaid) tax provision (benefit):	
Tax depreciation in excess of (less than) book depreciation	\$(2,064)
General business tax credits	1,814
Inventory reserves	878
Deferred income on shipments to domestic distributors	(716)
Restricted stock	583
Net decrease (increase) in intercompany profits in foreign inventories	(431)
Foreign tax credits	(429)
Reserves for employee benefits	(154)
Restructuring reserves	-
Other, net	(1,755)
-----	
Total provision for deferred (prepaid) income taxes	\$(2,274)
=====	

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

Quarterly financial information for fiscal 1995 and fiscal 1994 (thousands of dollars except as noted):

	4Q95	3Q95	2Q95	1Q95	4Q94	3Q94	2Q94	1Q94
Net sales	257,194	246,301	230,046	208,005	203,301	197,058	192,027	181,088
Cost of sales	126,591	121,183	113,652	103,145	101,457	99,890	98,508	94,593
Gross margin	130,603	125,118	116,394	104,860	101,844	97,168	93,519	86,495
% of sales	51%	51%	51%	50%	50%	49%	49%	48%
Operating expenses:								
Research and development	35,714	35,035	33,266	30,250	29,048	27,205	26,360	24,256
Selling, marketing, general and administrative	48,306	47,374	45,592	43,671	43,807	43,333	42,204	40,997
Total operating expenses	84,020	82,409	78,858	73,921	72,855	70,538	68,564	65,253
% of sales	33%	33%	34%	36%	36%	36%	36%	36%
Operating income	46,583	42,709	37,536	30,939	28,989	26,630	24,955	21,242
% of sales	18%	17%	16%	15%	14%	14%	13%	12%
Nonoperating expenses (income):								
Interest expense	959	938	1,022	1,282	1,694	1,796	1,829	1,830
Interest income	(2,200)	(1,721)	(1,991)	(2,191)	(2,106)	(1,535)	(931)	(593)
Other	208	562	732	732	884	644	828	565
Total nonoperating expenses (income)	(1,033)	(221)	(237)	(177)	472	905	1,726	1,802
Income before income taxes	47,616	42,930	37,773	31,116	28,517	25,725	23,229	19,440
% of sales	19%	17%	16%	15%	14%	13%	12%	11%
Provision for income taxes	12,482	11,149	9,066	7,468	6,844	6,046	5,345	4,180
Net income	35,134	31,781	28,707	23,648	21,673	19,679	17,884	15,260
% of sales	14%	13%	12%	11%	11%	10%	9%	8%
Per share	.29	.27	.24	.20	.19	.17	.15	.13
Shares used to compute earnings per share (in thousands)	120,365	119,777	118,368	117,647	117,113	116,228	115,607	114,683



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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The response to this item is contained in part under the caption "EXECUTIVE OFFICERS OF THE COMPANY" in Part I hereof, and the remainder is contained in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on March 12, 1996 (the "1996 Proxy Statement") under the caption "Election of Directors" and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The response to this item is contained in the Company's 1996 Proxy Statement under the captions "Directors' Compensation," "Executive Compensation," "Severance and Other Agreements," "Approval of Amendment to 1988 Stock Option Plan" and "Approval of Amendment to 1991 Restricted Stock Plan," and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The response to this item is contained in the Company's 1996 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management" and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The response to this item is contained in the Company's 1996 Proxy Statement under the caption "Transactions with Directors," and is incorporated herein by reference.

## PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

## (a) 1. FINANCIAL STATEMENTS

The following consolidated financial statements are included in Item 8:

- Consolidated Statements of Income for the years ended October 28, 1995, October 29, 1994 and October 30, 1993
- Consolidated Balance Sheets as of October 28, 1995, October 29, 1994 and October 30, 1993
- Consolidated Statements of Stockholders' Equity for the years ended October 28, 1995, October 29, 1994 and October 30, 1993
- Consolidated Statements of Cash Flows for the years ended October 28, 1995, October 29, 1994 and October 30, 1993

## (a) 2. FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statement schedules are included in Item 14(d):

## Schedule II - Valuation and Qualifying Accounts

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

## (a) 3. LISTING OF EXHIBITS

EXHIBIT NO. -----	DESCRIPTION -----
3-1	Restated Articles of Organization of Analog Devices, Inc., as amended, filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended April 29, 1995 and incorporated herein by reference.
3-2	By-laws of Analog Devices, Inc. as amended, filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 31, 1992 and incorporated herein by reference.
4-1	Rights Agreement, as amended, between Analog Devices, Inc. and The First National Bank of Boston, as Rights Agent, filed as an exhibit to a Form 8 filed on June 27, 1989 amending the Registration Statement on Form 8-A relating to Common Stock Purchase Rights, and incorporated herein by reference.
4-2	Indenture dated as of March 1, 1993 between Analog Devices, Inc. and The First National Bank of Boston, filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 29, 1994 and incorporated herein by reference.
4-3	Indenture dated as of December 18, 1995 between Analog Devices, Inc. and State Street Bank and Trust Company, as Trustee, filed herewith.
* 4-4	Analog Devices, Inc. Deferred Compensation Plan, filed as an exhibit to a Form S-8 filed on December 8, 1995 and incorporated herein by reference.
* 10-1	Bonus Plan of Analog Devices, Inc., filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 29, 1994 and incorporated herein by reference.

EXHIBIT NO. -----	DESCRIPTION -----
* 10-2	1978 Restricted Stock Plan of Analog Devices, Inc., as amended, filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 3, 1990 and incorporated herein by reference.
* 10-3	1991 Restricted Stock Plan of Analog Devices, Inc., filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 2, 1991 and incorporated herein by reference.
* 10-4	1980 Stock Option Plan of Analog Devices, Inc., as amended, filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 29, 1988 and incorporated herein by reference.
* 10-5	1988 Stock Option Plan of Analog Devices, Inc., as amended, filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 31, 1992 and incorporated herein by reference.
* 10-6	1989 Director Stock Option Plan of Analog Devices, Inc., as amended, filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 2, 1991 and incorporated herein by reference.
* 10-7	1992 Director Option Plan of Analog Devices, Inc., filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 31, 1992 and incorporated herein by reference.
* 10-8	1994 Director Stock Option Plan of Analog Devices, Inc., filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 29, 1994 and incorporated herein by reference.
10-9	Lease agreement dated February 13, 1970 between Analog Devices, Inc. and the trustees of Campanelli Investment Trust, relating to the premises at 30 Perwal Street, Westwood, Massachusetts, filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 29, 1994 and incorporated herein by reference.
10-10	Amended and restated lease agreement dated May 1, 1992 between Analog Devices, Inc. and the trustees of Everett Street Trust relating to the premises at 3 Technology Way, Norwood, Massachusetts, filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 31, 1992 and incorporated herein by reference.
10-11	Guaranty dated as of May 1, 1994 between Analog Devices, Inc. and Metropolitan Life Insurance Company relating to the premises at 3 Technology Way, Norwood, Massachusetts, filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended April 30, 1994 and incorporated herein by reference.
10-12	Letter Agreement dated as of May 18, 1994 between Analog Devices, Inc. and Metropolitan Life Insurance Company relating to the premises at 3 Technology Way, Norwood, Massachusetts, filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended April 30, 1994 and incorporated herein by reference.
10-13	Reimbursement Agreement dated May 18, 1992 between Analog Devices, Inc. and the trustees of Everett Street Trust, filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 31, 1992 and incorporated herein by reference.
10-14	Lease agreement dated August 8, 1990 between Precision Monolithics, Inc. and Bourns, Inc. relating to the premises at 1525 Comstock Road, Santa Clara, California, filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 3, 1990 and incorporated herein by reference.
10-15	Lease agreement dated August 8, 1990, as amended, between Precision Monolithics, Inc. and Bourns, Inc. relating to the premises at 1500 Space Park Drive, Santa Clara, California, filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 3, 1990 and incorporated herein by reference.

EXHIBIT NO. -----	DESCRIPTION -----
10-16	Credit Agreement dated as of March 12, 1993 among Analog Devices, Inc. and Morgan Guaranty Trust Company of New York, Bank of America National Trust and Savings Association, Continental Bank, N.A., The First National Bank of Boston and Morgan Guaranty Trust Company of New York, as Agent, filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended May 1, 1993 and incorporated herein by reference.
10-17	Amendment No. 1 dated as of May 18, 1993 to the Company's Credit Agreement dated March 12, 1993, filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended July 31, 1993 and incorporated herein by reference.
10-18	Amendment No. 2 dated as of September 8, 1994 to the Company's Credit Agreement dated March 12, 1993, filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 29, 1994 and incorporated herein by reference.
10-19	Term loan agreement dated as of November 12, 1991 between Analog Devices, Inc. and The First National Bank of Boston, filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 2, 1991 and incorporated herein by reference.
* 10-20	Form of Employee Retention Agreement, as amended, filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 31, 1992 and incorporated herein by reference.
* 10-21	Employee Change in Control Severance Policy of Analog Devices, Inc., as amended, filed as an exhibit to the Company's 10-K for the fiscal year ended October 30, 1993 and incorporated herein by reference.
* 10-22	Senior Management Change in Control Severance Policy of Analog Devices, Inc., as amended, filed as an exhibit to the Company's 10-K for the fiscal year ended October 30, 1993 and incorporated herein by reference.
10-23	Warrant Agreement dated as of August 8, 1990 between Analog Devices, Inc. and Bourns, Inc., filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 3, 1990 and incorporated herein by reference.
* 10-24	Description of Consulting Agreement between Analog Devices, Inc. and John L. Doyle, filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 2, 1991 and incorporated herein by reference.
* 10-25	Letter agreement between Analog Devices, Inc. and Jerald G. Fishman dated December 15, 1994 relating to acceleration of stock options and restricted stock awards upon termination of employment, filed as an exhibit to the Company's Form 10-K for the fiscal year ended October 29, 1994 and incorporated herein by reference.
** 10-26	Option Agreement dated as of May 16, 1995 between Analog Devices B.V. and Taiwan Semiconductor Manufacturing Company, Ltd., filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended July 29, 1995 and incorporated herein by reference.
** 10-27	Wafer Production Agreement dated as of May 16, 1995 between Taiwan Semiconductor Manufacturing Company, Ltd. and Analog Devices B.V., filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended July 29, 1995 and incorporated herein by reference.
10-28	Lease Agreement dated June 16, 1995 between Analog Devices, Inc. and Ferrari Brothers, relating to the premises at 610 Weddell Drive, Sunnyvale, California, filed herewith.

EXHIBIT NO. -----	DESCRIPTION -----
21	Subsidiaries of the Company, filed herewith.
23	Consent of Ernst & Young, filed herewith.
27	Financial Data Schedule

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

\*\* Confidential treatment has been granted as to certain portions of these Exhibits.

(b) REPORTS ON FORM 8-K

The Company filed no reports on Form 8-K with the Securities and Exchange Commission during the fiscal quarter ended October 28, 1995.

## SIGNATURES

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

ANALOG DEVICES, INC.  
(Registrant)

By: /s/ Ray Stata

-----  
Ray Stata  
Chairman of the Board and  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Joseph E. McDonough

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

Date: January 25, 1996

Date: January 25, 1996

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

NAME -----	TITLE -----	DATE -----
/s/ Ray Stata ----- Ray Stata	Chairman of the Board and Chief Executive Officer	January 25, 1996 -----
/s/ Jerald G. Fishman ----- Jerald G. Fishman	President, Chief Operating Officer and Director	January 25, 1996 -----
/s/ John L. Doyle ----- John L. Doyle	Director	January 25, 1996 -----
/s/ Samuel H. Fuller ----- Samuel H. Fuller	Director	January 25, 1996 -----
/s/ Philip L. Lowe ----- Philip L. Lowe	Director	January 25, 1996 -----
/s/ Gordon C. McKeague ----- Gordon C. McKeague	Director	January 25, 1996 -----
/s/ Joel Moses ----- Joel Moses	Director	January 25, 1996 -----
/s/ Lester C. Thurow ----- Lester C. Thurow	Director	January 25, 1996 -----

ANALOG DEVICES, INC.  
ANNUAL REPORT ON FORM 10-K  
YEAR ENDED OCTOBER 28, 1995  
ITEM 14(D)  
FINANCIAL STATEMENT SCHEDULE

## ANALOG DEVICES, INC.

## SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED OCTOBER 28, 1995, OCTOBER 29, 1994 AND OCTOBER 30, 1993  
(THOUSANDS)

DESCRIPTION -----	BALANCE AT BEGINNING OF PERIOD -----	ADDITION CHARGED TO EXPENSE -----	DEDUCTIONS -----	BALANCE AT END OF PERIOD -----
INVENTORY RESERVE:				
Year ended October 30, 1993	\$ 2,814 =====	\$ - =====	\$ 1,017 =====	\$ 1,797 =====
Year ended October 29, 1994	\$ 1,797 =====	\$ 1,281 =====	\$ - =====	\$ 3,078 =====
Year ended October 28, 1995	\$ 3,078 =====	\$ 1,399 =====	\$ - =====	\$ 4,477 =====
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Year ended October 30, 1993	\$ 2,138 =====	\$ 466 =====	\$ 209 =====	\$ 2,395 =====
Year ended October 29, 1994	\$ 2,395 =====	\$ 4,477 =====	\$ 469 =====	\$ 6,403 =====
Year ended October 28, 1995	\$ 6,403 =====	\$ 435 =====	\$ 2,399 =====	\$ 4,439 =====



=====

ANALOG DEVICES, INC.  
AND  
STATE STREET BANK AND TRUST COMPANY  
Trustee

-----

INDENTURE  
Dated as of December 18, 1995

-----

\$200,000,000  
(With an Over-Allotment option for an  
Additional \$30,000,000)  
3 1/2% Convertible Subordinated Notes due December 1, 2000

=====

## Analog Devices, Inc.

Reconciliation and tie between Trust Indenture Act  
of 1939 and Indenture, dated as of December 18, 1995

Trust Indenture Act Section -----	Indenture Section -----
[SECTION] 310(a)(1) .....	6.9
(a)(2) .....	6.9
(a)(3) .....	Not Applicable
(a)(4) .....	Not Applicable
(b) .....	6.8
	6.1
[SECTION] 311(a) .....	6.13
(b) .....	6.13
[SECTION] 312(a) .....	7.1
(b) .....	7.2(a)
(c) .....	7.2(b)
	7.2(c)
[SECTION] 313(a) .....	7.3(a)
(b) .....	7.3(a)
(c) .....	7.3(a)
(d) .....	7.3(b)
[SECTION] 314(a) .....	7.4
(b) .....	Not Applicable
(c)(1) .....	1.2
(c)(2) .....	1.2
(c)(3) .....	Not Applicable
(d) .....	Not Applicable
(e) .....	1.2
[SECTION] 315(a) .....	6.1(a)
(b) .....	6.2
	7.3(a)(6)
(c) .....	6.1(b)
(d) .....	6.1(c)
(d)(1) .....	6.1(a)(1)
(d)(2) .....	6.1(c)(2)
(d)(3) .....	6.1(c)(3)
(e) .....	5.14

[SECTION] 316(a)(1)(A)	.....	5.12
(a)(1)(B)	.....	5.13
(a)(2)	.....	Not Applicable
(b)	.....	5.8
[SECTION] 317(a)(1)	.....	5.3
(a)(2)	.....	5.4
(b)	.....	10.3
[SECTION] 318(a)	.....	1.7

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Note: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

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\* Note: This table of contents shall not, for any purpose, be deemed to be a part of the Indenture.

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INDENTURE, dated as of December 18, 1995, between Analog Devices, Inc., a corporation duly organized and existing under the laws of the Commonwealth of Massachusetts (herein called the "Company"), having its principal office at One Technology Way, Norwood, Massachusetts 02062, and State Street Bank and Trust Company, as Trustee (herein called the "Trustee").

RECITALS OF THE COMPANY

The Company has duly authorized the creation of an issue of its 3 1/2% Convertible Subordinated Notes due December 1, 2000 (herein called the "Securities") of substantially the tenor and amount hereinafter set forth, and to provide therefor the Company has duly authorized the execution and delivery of this Indenture.

All things necessary to make the Securities, when executed by the Company and authenticated and delivered hereunder and duly issued by the Company, the valid obligations of the Company, and to make this Indenture a valid agreement of the Company, in accordance with their and its terms, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities, as follows:

ARTICLE 1

DEFINITIONS AND OTHER PROVISIONS  
OF GENERAL APPLICATION

Section 1.1 Definitions.

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For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted at the date of this instrument; and

(4) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

Certain terms, used principally in Articles Six, Twelve and Fourteen, are defined in that Article.

"Act", when used with respect to any Holder, has the meaning specified in Section 1.4.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Authenticating Agent" means any Person authorized by the Trustee to act on behalf of the Trustee to authenticate Securities.

"Board of Directors" means either the board of directors of the Company or any duly authorized committee of that board.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in the City of New York or the city in which the Corporate Trust Office of the Trustee is located are authorized or obligated by law or executive order to close.

"Closing Price" for any security for any day means the last reported sale price of such security regular way on such day or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices regular way on such day, in either case on the New York Stock Exchange or, if the security is not listed or admitted to trading on such exchange, on the principal national securities exchange on which the security is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, on the Nasdaq National Market or Nasdaq or, if the security is not listed or admitted to trading on any national securities exchange or quoted on such National Market or Nasdaq, the average of the closing bid and asked prices in the over-the-counter market as furnished by any New York Stock Exchange member firm selected from time to time by the Company for that purpose. If the security is not listed or admitted to trading on any national securities exchange, quoted on such National Market or Nasdaq or listed in any list of bid and asked prices in the over-the-counter market, "Closing Price" shall mean the fair market value of the security as determined in good faith by the Board of Directors and evidenced by a Board Resolution.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Common Stock" includes any stock of any class of the Company which has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company and which is not subject to redemption by the Company. However, subject to the provisions of Section 12.11, shares issuable on conversion of Securities and shares used to pay the Repurchase Price pursuant to Section 14.1 shall include only shares of the class designated as Common Stock of the Company at the date of this instrument or shares of any class or classes resulting from any reclassification or reclassifications thereof and which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company and which are not subject to redemption by the Company; provided that if at any time there shall be more than one such resulting class, the shares of each such class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor Person shall have become such pursuant to the applicable provisions of this Indenture and thereafter "Company" shall mean such successor Person.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by its Chairman of the Board, its President or a Vice President, and by its Treasurer, an Assistant Treasurer, its Secretary or an Assistant Secretary, and delivered to the Trustee.

"Corporate Trust Office" means the principal office of the Trustee at which at any particular time its corporate trust business shall be administered. Initially, the Corporate Trust Office of the Trustee is located at 225 Franklin Street, Boston, Massachusetts 02110, Attn: Corporate Trust Department.

"Corporation" means a corporation, association, company, joint-stock company or business trust.

"Defaulted Interest" has the meaning specified in Section 3.7.

"Event of Default" has the meaning specified in Section 5.1.

"Holder" means a Person in whose name a Security is registered in the Security Register.

"Indenture" means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof.

"Interest Payment Date" means the Stated Maturity of an installment of interest on the Securities.

"Maturity", when used with respect to any Security, means the date on which the principal of such Security becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption, obligation to repurchase or otherwise.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, the President or a Vice President, and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary, of the Company, and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company, and who shall be acceptable to the Trustee.

"Outstanding", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(i) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(ii) Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities; PROVIDED that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made; and

(iii) Securities which have been paid pursuant to Section 3.6 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company;

PROVIDED, HOWEVER, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only securities which the Trustee knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor. The Trustee may require, and may conclusively rely upon, an Officers' Certificate as to whether or not any Securities are so owned.

"Paying Agent" means any Person authorized by the Company to pay the principal of (and premium, if any) or interest on any Securities on behalf of the Company.

"Person" means any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 3.6 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Redemption Date", when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Regular Record Date" for the interest payable on any Interest Payment Date means the May 15 or November 15 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date.

"Responsible Officer", when used with respect to the Trustee, means any officer assigned to and working in the corporate trust department of the Trustee, or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his or her knowledge of and familiarity with the particular subject.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 3.5.

"Senior Indebtedness" shall have the meaning set forth in Section 13.1.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 3.7.

"Stated Maturity", when used with respect to any Security or any installment of interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such installment of interest is due and payable.

"Subsidiary" means a corporation more than 50% of the outstanding voting stock of which is owned, directly or indirectly, by the Company or by one or more other subsidiaries, or by the Company and one or more other subsidiaries. For the purposes of this definition, "voting stock" means stock which ordinarily has voting power for the election of directors, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

"Trading Day" means, with respect to any security, each Monday, Tuesday, Wednesday, Thursday and Friday, other than any day on which securities are not traded on the exchange or market on which such security is traded.

"Trustee" means the person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean such successor Trustee.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed, except as provided in Section 9.5.

"Vice President", when used with respect to the Company or the Trustee, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president".

#### Section 1.2 Compliance Certificates and Opinions.

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Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.



Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

Section 1.3 Form of Documents Delivered to Trustee.  
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In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 1.4 Acts of Holders.  
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(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 6.1) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The ownership of Securities shall be proved by the Security Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

(e) Except for matters arising under Article V (in which event any record date shall be set by the Trustee), the Company may set any day as a record date for the purpose of determining the Holders of Outstanding Securities entitled to give, make or take any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders of Securities. If any record date is set pursuant to this paragraph, the Holders of Outstanding Securities on such record date, and no other Holders, shall be entitled to take the relevant action, whether or not such Holders remain Holders after such record date; provided that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date (as defined below) by Holders of the requisite principal amounts of Outstanding Securities on such record date. Nothing in this paragraph shall be construed to prevent the Trustee from setting a new record date for any action for which a record date has previously been set pursuant to this paragraph (whereupon the record date previously set shall automatically and with no action by any Person be cancelled and of no effect), and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Securities on the date such action is taken. Promptly after receiving written notice of a record date set by the Company pursuant to this paragraph, the Trustee, at the Company's expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the Company in writing and to each Holder of Securities in the manner set forth in Section 1.6.

With respect to any record date set pursuant to this Section 1.4(e), the party hereto which sets such record date may designate any day as the "Expiration Date" and from time to time may change the Expiration Date to any earlier or later day; provided that no such change shall be effective unless notice of the proposed new Expiration Date is given to the other party hereto in writing, and to each Holder of Securities in the manner set forth in Section 1.6, on or prior to the existing Expiration Date. If an Expiration Date is not designated with respect to any record date set pursuant to this Section 1.4(e), the party hereto which set such record date shall be deemed to have initially designated the 180th day after such record date as the Expiration Date with respect thereto, subject to its right to change the Expiration Date as provided in this paragraph. Notwithstanding the foregoing, no Expiration Date shall be later than the 180th day after the applicable record date.

Section 1.5 Notices, Etc., to Trustee and Company.  
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Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, Attention: 1995 Analog Devices, Inc. Indenture, or

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to it at the address of its principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company.

Section 1.6 Notice to Holders; Waiver.  
-----

Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at his address as it appears in the Security Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

Section 1.7 Conflict with Trust Indenture Act.  
-----

If any provision hereof limits, qualifies or conflicts with another provision hereof which is required to be included in this Indenture by any of the provisions of the Trust Indenture Act, such required provision shall control.

Section 1.8 Effect of Headings and Table of Contents.  
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The Article and Section headings herein and the Table of Contents are for convenience only and shall not effect the construction hereof.

Section 1.9 Successors and Assigns.  
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All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

Section 1.10 Separability Clause.  
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In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 1.11 Benefits of Indenture.  
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Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, the holders of Senior Indebtedness and the Holders of Securities, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 1.12 Governing Law.  
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This Indenture and the Securities shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.

Section 1.13 Legal Holidays.  
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In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any security or the last date on which a Holder has the right to convert his Securities shall not be a Business Day, then (notwithstanding any other provision of this Indenture or of the Securities) payment of interest or principal (and premium, if any) or conversion of the Securities need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the Interest

Payment Date or Redemption Date, or at the Stated Maturity, or on such last day for conversion, PROVIDED that no interest shall accrue for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be.

ARTICLE 2

SECURITY FORMS

Section 2.1 Forms Generally.  
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The Securities and the Trustee's certificates of authentication shall be in substantially the forms set forth in this Article, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution of the Securities.

The definitive Securities shall be printed, lithographed or engraved or produced by any combination of these methods on steel engraved borders or may be produced in any other manner permitted by the rules of any Securities exchange on which the Securities may be listed, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

Section 2.2 Form of Face of Security.  
-----

Analog Devices, Inc.

3 1/2% Convertible Subordinated Note

due December 1, 2000

No. \_\_\_\_\_ \$ \_\_\_\_\_

Analog Devices, Inc., a corporation duly organized and existing under the laws of Massachusetts (herein called the "Company", which term includes any successor person under the Indenture hereinafter referred to), for value received hereby promises to pay to \_\_\_\_\_, or registered assigns, the principal sum of \_\_\_\_\_ Dollars on December 1, 2000, and to pay interest thereon from December 18, 1995 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semiannually on June 1 and December 1 in each year, commencing June 1, 1996, at the rate of 3 1/2% per annum,

until the principal hereof is paid or made available for payment. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the May 15 or November 15 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture. Payment of the principal of (and premium, if any) and interest on this Security will be made at the office or agency of the Company maintained for that purpose in The Borough of Manhattan, the City of New York or the city in which the Corporate Trust Office of the Trustee is located, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

Dated: \_\_\_\_\_ ANALOG DEVICES, INC.

Attest: \_\_\_\_\_ By: \_\_\_\_\_

Section 2.3 Form of Reverse of Security.  
-----

This Security is one of a duly authorized issue of securities of the Company designated as its 3 1/2% Convertible Subordinated Notes due December 1, 2000 (herein called the "Securities"), limited in aggregate principal amount to \$200,000,000 (except for such additional principal amounts, not to exceed \$30,000,000, of Securities issued to cover over-allotments in the initial public offering of the Securities) issued and to be issued under an Indenture, dated as of December 18, 1995 (herein called the "Indenture"), between the Company and State Street Bank and Trust Company, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee, the holders of Senior Indebtedness and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered.

Subject to and upon compliance with the provisions of the Indenture, the Holder of this Security is entitled, at his option, at any time after 60 days from the latest date of original issuance of the Securities and on or before the close of business on December 1, 2000, or in case this Security or a portion hereof is called for redemption, then in respect of this Security or such portion hereof until and including, but (unless the Company defaults in making the payment due upon redemption) not after, the close of business on the fifth Business Day prior to the Redemption Date, to convert this Security (or any portion of the principal amount hereof which is \$1,000 or an integral multiple thereof), at the principal amount hereof, or of such portion, into fully paid and non-assessable shares (calculated as to each conversion to the nearest 1/100 of a share) of Common Stock of the Company at a conversion price equal to \$41 7/8 for each share of Common Stock (or at the current adjusted conversion price if an adjustment has been made as provided in the Indenture) by surrender of this Security, duly endorsed or assigned to the Company or in blank, to the Company at its office or agency in The Borough of Manhattan, the City of New York or the city in which the Corporate Trust Office of the Trustee is located, accompanied by written notice to the Company that the Holder hereof elects to convert this Security, or if less than the entire principal amount hereof is to be converted, the portion hereof to be converted, and, in case such surrender shall be made during the period from the close of business on any Regular Record Date next preceding any Interest Payment Date to the opening of business on such Interest Payment Date (the "Interest Period"), also accompanied by payment in New York Clearing House Funds or other funds acceptable



to the Company of an amount equal to the interest payable on such Interest Payment Date on the principal amount of this Security then being converted; except that in the case of Securities or portions thereof that have been called for redemption and, pursuant to Section 12.1 of the Indenture, as a result of such redemption the right to convert such Securities terminates during the Interest Period, any such Securities surrendered for conversion during such Interest Period need not be accompanied by payment in an amount equal to such interest. Subject to the aforesaid requirement for payment and, in the case of a conversion after the Regular Record Date next preceding any Interest Payment Date and on or before such Interest Payment Date, to the right of the Holder of Record of this Security (or any Predecessor Security) at such Regular Record Date to receive an installment of interest (with certain exceptions provided in the Indenture), no payment or adjustment is to be made on conversion for interest accrued hereon or for dividends on the Common Stock issued on conversion. No fractions of shares or scrip representing fractions of shares will be issued on conversion, but instead of any fractional interest the Company shall pay a cash adjustment as provided in the Indenture. The conversion price is subject to adjustment as provided in the Indenture. In addition, the Indenture provides that in case of certain consolidations or mergers to which the Company is a party or the transfer of substantially all of the assets of the Company, the Indenture shall be amended, without the consent of any Holders of Securities, so that this Security, if then outstanding, will be convertible thereafter, during the period this Security shall be convertible as specified above, only into the kind and amount of securities, cash and other property receivable upon the consolidation, merger or transfer by a holder of the number of shares of Common stock into which this Security might have been converted immediately prior to such consolidation, merger or transfer (assuming such holder of Common Stock failed to exercise any rights of election and received per share the kind and amount received per share by a plurality of non-electing shares).

The Securities are subject to redemption upon not less than 30 days' nor more than 60 days' notice by mail, at any time on or after December 1, 1998, as a whole or in part, at the election of the Company. The Redemption Prices (expressed as percentages of the principal amount) beginning December 1 of the years indicated are as follows:

Year ----	Redemption Price -----
1998	101.4%
1999	100.7%

and thereafter at a Redemption Price equal to 100% of the principal amount, together in the case of any such redemption with accrued interest to the Redemption Date, but interest installments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.

Upon a Change in Control (as defined in the Indenture), the Company will be required to offer to repurchase all or part of the Securities at 100% of their principal amount plus accrued interest. The Company shall pay the repurchase price in cash.

In the event of redemption or conversion of this Security in part only, a new Security or Securities for the unredeemed or unconverted portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

The indebtedness evidenced by this Security is, to the extent provided in the Indenture, subordinate and subject in right of payment to the prior payment in full of all Senior Indebtedness, and this Security is issued subject to the provisions of the Indenture with respect thereto. Each holder of this Security, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination so provided and (c) appoints the Trustee as his attorney-in-fact for any and all such purposes.

If an Event of Default shall occur and be continuing, the principal of all the Securities may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities at the time outstanding. The Indenture also contains provisions permitting the Holders of a majority in aggregate principal amount of the Securities at the time Outstanding, on behalf of the Holders of all the Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this

Security and of any Security issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of (and premium, if any) and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed or to convert this Security as provided in the Indenture.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in The Borough of Manhattan, The City of New York or the city in which the Corporate Trust Office of the Trustee is located, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities are exchangeable for a like aggregate principal amount of Securities of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made to a Holder for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security is overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Section 2.4 Form of Trustee's Certificate of  
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 Authentication.  
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This is one of the Securities referred to in the within-mentioned Indenture.

State Street Bank and Trust Company  
 as Trustee

By \_\_\_\_\_  
 Authorized signatory

Section 2.5 Form of Conversion Notice.  
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To Analog Devices, Inc.:

The undersigned owner of this Security hereby irrevocably exercises the option to convert this Security, or portion hereof (which is \$1,000 or an integral multiple thereof) below designated, into shares of Common Stock of Analog Devices, Inc., in accordance with the terms of the Indenture referred to in this Security, and directs that the certificate or certificates for the shares issuable and deliverable upon the conversion, together with any check in payment for fractional shares and any Securities representing any unconverted principal amount hereof, be issued in the name of and delivered to the undersigned, unless a different name has been indicated below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay any transfer taxes payable with respect thereto. Any amount required to be paid by the undersigned on account of interest accompanies this Security.

Principal Amount to be converted  
 (in an integral multiple of \$1,000, if less than all):  
 \$ \_\_\_\_\_

FILL IN FOR REGISTRATION OF SHARES:

-----

-----  
Name

-----  
Address

-----  
please print name and address (including zip code)

Please Insert Social Security or  
Other Taxpayer Identifying  
Number

\_\_\_\_\_  
\_\_\_\_\_

Dated: \_\_\_\_\_ Signature \_\_\_\_\_  
(must conform in all  
respects to name of Holder  
appearing on face hereof)

Fill in for registration of shares of Common stock and  
Securities if to be issued otherwise than to the Holder:

\_\_\_\_\_  
(Name) Social Security or Other  
Taxpayer Identifying Number:

\_\_\_\_\_  
(Name) Signature Guaranteed  
By:  
Member Signature Guaranty  
Medallion Program

\_\_\_\_\_  
please print name and address  
(including zip code)

## ARTICLE 3

## THE SECURITIES

Section 3.1 Title and Terms.  
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The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is limited to \$200,000,000 (except for such additional principal amounts, not to exceed \$30,000,000, of Securities issued to cover over-allotments in the initial public offering of the Securities), except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities pursuant to Section 3.4, 3.5, 3.6, 9.6 or 12.2.

The Securities shall be known and designated as the "3 1/2% Convertible Subordinated Notes due December 1, 2000" of the Company. Their final Stated Maturity shall be December 1, 2000, and they shall bear interest at the rate of 3 1/2% per annum, from December 18, 1995 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, payable semi-annually on June 1 and December 1, commencing June 1, 1996 until the principal thereof is paid or made available for payment.

The principal of (and premiums if any) and interest on the Securities shall be payable at the office or agency of the Company in The Borough of Manhattan, the City of New York or the city in which the Corporate Trust Office of the Trustee is located maintained for such purpose and at any other office or agency maintained by the Company for such purpose; PROVIDED, HOWEVER, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

The Securities shall be redeemable as provided in Article 11.

The Securities shall be convertible as provided in Article 12.

The Securities shall be subordinated in right of payment to Senior Indebtedness as provided in Article 13.

The Securities shall be subject to repurchase at the option of the Holder as provided in Article 14.

Section 3.2 Denominations.  
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The Securities shall be issuable only in registered form without coupons and only in denominations of \$1,000 and any integral multiple thereof.

Section 3.3 Execution, Authentication, Delivery  
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and Dating.  
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The Securities shall be executed on behalf of the Company by its Chairman of the Board, its President or one of its Vice Presidents, under its corporate seal reproduced thereon attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities; and the Trustee in accordance with such Company Order shall authenticate and deliver such Securities as in this Indenture provided and not otherwise.

Each Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder.

Section 3.4 Temporary Securities.  
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Pending the preparation of definitive Securities, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such

appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities.

If temporary Securities are issued, the Company will cause definitive Securities to be prepared without unreasonable delay. After the preparation of definitive Securities, the temporary Securities shall be exchangeable for definitive Securities upon surrender of the temporary Securities at any office or agency of the Company designated pursuant to Section 10.2, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Securities of authorized denominations. Until so exchanged the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities.

Section 3.5 Registration; Registration of  
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Transfer and Exchange.  
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The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agent designated pursuant to Section 10.2 being herein sometimes collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities and of transfers of Securities. The Trustee is hereby appointed "Security Registrar" for the purpose of registering Securities and transfers of Securities as herein provided.

Upon surrender for registration of transfer of any Security at an office or agency of the Company designated pursuant to Section 10.2 for such purpose, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of any authorized denominations and of a like aggregate principal amount.

At the option of the Holder, Securities may be exchanged for other Securities of any authorized denominations and of a like aggregate principal amount, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.



All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made to a Holder for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 3.4, 9.6, 11.8 or 12.2 not involving any transfer.

The Company shall not be required (i) to issue, register the transfer of or exchange any Security during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Securities selected for redemption under Section 11.4 and ending at the close of business on the day of such mailing, or (ii) to register the transfer of or exchange any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

Section 3.6 Mutilated, Destroyed, Lost and  
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Stolen Securities.  
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If any mutilated Security is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute and upon its request the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of like tenor and principal amount and bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

Section 3.7 Payment of Interest; Interest Rights Preserved.  
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Interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest.

Any interest on any Security which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the

aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder at his address as it appears in the Security Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following clause (2).

(2) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

In the case of any Security which is converted after any Regular Record Date but on or before the next Interest Payment Date, interest whose Stated Maturity is on such Interest Payment Date shall be payable on such Interest Payment Date notwithstanding such conversion, and such interest (whether or not punctually paid or duly provided for) shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on such Regular Record Date.

Section 3.8 Persons Deemed Owners.  
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Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of (and premium, if any) and (subject to Section 3.7) interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

Section 3.9 Cancellation.  
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All Securities surrendered for payment, redemption, registration of transfer or exchange or conversion shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Securities so delivered shall be promptly cancelled by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Indenture. All cancelled Securities held by the Trustee shall be disposed of in accordance with the Trustee's usual document destruction procedures.

Section 3.10 Computation of Interest.  
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Interest on the Securities shall be computed on the basis of a year of twelve 30-day months.

## ARTICLE 4

## SATISFACTION AND DISCHARGE

Section 4.1 Satisfaction and Discharge of Indenture.  
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This Indenture shall cease to be of further effect (except as to any surviving rights of conversion, registration of transfer or exchange of Securities herein expressly provided for), and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 3.6 and (ii) Securities for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 10.3) have been delivered to the Trustee for cancellation; or

(B) all such Securities not theretofore delivered to the Trustee for cancellation

- (i) have become due and payable, or
- (ii) will become due and payable at their Stated Maturity within one year, or
- (iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation for principal (and premium, if any) and interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 6.7, the obligations of the Trustee to any Authenticating Agent under Section 6.14 and, if money shall have been deposited with the

Trustee pursuant to subclause (B) of clause (1) of this Section, the obligations of the Trustee under Section 4.2 and the last paragraph of Section 10.3 shall survive. Except as specifically agreed in writing, the Trustee shall not be responsible for the payment of interest upon money deposited with it under this Indenture.

Section 4.2 Application of Trust Money.  
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Subject to the provisions of the last paragraph of Section 10.3, all money deposited with the Trustee pursuant to Section 4.1 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money has been deposited with the Trustee. All moneys deposited with the Trustee pursuant to Section 4.1 (and held by it or any Paying Agent) for the payment of Securities subsequently converted shall be returned to the Company upon Company Request.

ARTICLE 5

REMEDIES

Section 5.1 Events of Default.  
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"Event of Default", wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be occasioned by the provisions of Article 13 or be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default in the payment of any interest upon any Security when it becomes due and payable, and continuance of such default for a period of 30 days; or

(2) default in the payment of the principal of (or premium, if any, on) any Security at its Maturity; or

(3) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with), and continuance of such default or breach for a period of 60 days after there has been given, by registered or

certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 10% in principal amount of the Outstanding Securities a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(4) a failure by the Company or any Subsidiary to make any payment at maturity in respect of any obligations (other than non-recourse obligations) of, or guaranteed or assumed by, the Company or any Subsidiary for borrowed money ("Indebtedness") in an amount in excess of \$25,000,000 and continuance of such failure for 180 days, or a default by the Company or any Subsidiary with respect to any Indebtedness, which default results in the acceleration or such acceleration having been cured, waived, rescinded or annulled within 30 days after there shall have been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 10% in principal amount of the Outstanding Securities a written notice specifying such default and requiring the Company to cause such indebtedness to be discharged or cause such default to be cured or waived or such acceleration to be rescinded or annulled and stating that such notice is a "Notice of Default" hereunder; or

(5) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 60 consecutive days; or

(6) the commencement by the Company of a voluntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal

or state bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or state law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in substantial furtherance of any such action.

Section 5.2 Acceleration of Maturity; Rescission  
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 and Annulment.  
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If an Event of Default occurs and is continuing, then and in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities may declare the principal of all the Securities to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal shall become immediately due and payable.

At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Securities, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay

(A) all overdue interest on all Securities,

(B) the principal of (and premium, if any, on) any Securities which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate borne by the Securities, and



(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel;

and

(2) all Events of Default, other than the non-payment of the principal of Securities which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 5.13.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

Section 5.3 Collection of Indebtedness and Suits for  
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Enforcement by Trustee.  
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The Company covenants that if

(1) default is made in the payment of any interest on any Security when such interest becomes due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of (or premium, if any, on) any Security at the Maturity thereof,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal (and premium, if any) and interest, and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal (and premium, if any) and on any overdue interest, at the rate borne by the Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon the Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon the Securities, wherever situated.

If an Event of Default occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 5.4 Trustee May File Proofs of Claim.  
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In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(i) to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Securities and take such other actions, including participating as a member, voting or otherwise, of any official committee of creditors appointed in such matter and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders allowed in such judicial proceeding, and

(ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 6.7.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

Section 5.5 Trustee May Enforce Claims  
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Without Possession of Securities.  
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All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

Section 5.6 Application of Money Collected.  
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Subject to Article 13, any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 6.7; and

SECOND: To the payment of the amounts then due and unpaid for principal of (and premium, if any) and interest on the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal (and premium, if any) and interest, respectively.

Section 5.7 Limitation on Suits.  
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No Holder of any Security shall have any right to institute any action, suit or proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default;

(2) the Holders of not less than 25% in principal amount of the Outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such action, suit or proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities;

it being understood and intended that no one or more Holders shall have any right in any manner whatever by virtue of, or by availing itself of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders.

Section 5.8 Unconditional Right of Holders to Receive  
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Principal, Premium and Interest and to Convert.  
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Notwithstanding any other provision in this Indenture, but subject to the provisions of Article 13, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and (subject to Section 3.7) interest on such Security on the respective Stated Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date) and to convert such Security in accordance with Article 12 and to institute suit for the enforcement of any such payment and right to convert, and such rights shall not be impaired without the consent of such Holder.

Section 5.9 Restoration of Rights and Remedies.  
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If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

Section 5.10 Rights and Remedies Cumulative.  
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Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 3.6, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 5.11 Delay or Omission Not Waiver.  
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No delay or omission of the Trustee or of any Holder of any Security to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

Section 5.12 Control by Holders.  
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The Holders of a majority in principal amount of the Outstanding Securities shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, PROVIDED that

(1) such direction shall not be in conflict with any rule of law or with this Indenture, and

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Section 5.13 Waiver of Past Defaults.  
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The Holders of not less than a majority in principal amount of the Outstanding Securities may on behalf of the Holders of all the Securities waive any past default hereunder and its consequences, except a default

(1) in the payment of the principal of (or premium, if any) or interest on any Security, or

(2) in respect of a covenant or provision hereof which under Article 9 cannot be modified or amended without the consent of the Holder of each Outstanding Security affected; provided however that no such waiver shall be effected until all amounts then due to the Trustee under Section 6.7 have been paid.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 5.14 Undertaking for Costs.  
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All parties to this Indenture agree, and each Holder of any Security by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of the Outstanding Securities, or to any suit instituted by any Holder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Security on or after the respective Stated Maturities expressed in such Security (or, in the case of redemption, on or after the Redemption Date) or for the enforcement of the right to convert any Security in accordance with Article 12.

Section 5.15 Waiver of Stay or Extension Laws.  
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The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

## ARTICLE 6

## THE TRUSTEE

Section 6.1 Certain Duties and Responsibilities.  
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(a) Except during the continuance of an Event of Default,

(1) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture, but need not verify the accuracy of the contents thereof.

(b) In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own wilful misconduct, EXCEPT that

(1) this Subsection shall not be construed to limit the effect of Subsection (a) of this Section;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Securities relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture; and

(4) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

#### Section 6.2 Notice of Defaults.

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Within 90 days after the occurrence of any default hereunder, the Trustee shall transmit by mail to all Holders, as their names and addresses appear in the Security Register, notice of such default hereunder known to the Trustee, unless such default shall have been cured or waived; PROVIDED, HOWEVER, that, except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Security, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors or Responsible Officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Holders; and PROVIDED, FURTHER, that in the case of any default of the character specified in Section 5.1(3), no such notice to Holders shall be given until at least 30 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default.



Section 6.3 Certain Rights of Trustee.  
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Subject to the provisions of Section 6.1:

(a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(d) the Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney;

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder;

(h) the permissive right of the Trustee to take or refrain from taking any actions enumerated in this Indenture shall not be construed as a duty and the Trustee shall not be answerable in such actions other than for its own negligence or bad faith; and

(i) the Trustee shall not be deemed to know of any fact or event upon the occurrence of which it may be required to take action hereunder unless one of its Responsible Officers shall have actual knowledge thereof.

Section 6.4 Not Responsible for Recitals  
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or Issuance of Securities.  
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The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. The Trustee shall not be accountable for the use or application by the Company of Securities or the proceeds thereof.

Section 6.5 May Hold Securities.  
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The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 6.8 and 6.13, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

Section 6.6 Money Held in Trust.  
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Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company in writing.

Section 6.7 Compensation and Reimbursement.  
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The Company agrees

(1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of this trust, including the costs, expenses and reasonable attorneys' fees of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

Section 6.8 Disqualification; Conflicting Interests.  
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(a) If the Trustee has or shall acquire any conflicting interest, within the meaning of the Trust Indenture Act, it shall, within 90 days after ascertaining that it has such conflicting interest, either eliminate such conflicting interest or resign in accordance with the provisions of the Trust Indenture Act.

(b) In the event that the Trustee shall fail to comply with the provisions of Subsection (a) of this Section, the Trustee shall, within 10 days after the expiration of such 90-day period, transmit by mail to all Holders, as their names and addresses appear in the Security Register, notice of such failure.

Section 6.9 Corporate Trustee Required; Eligibility.  
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There shall at all times be a Trustee hereunder which shall be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$50,000,000 and subject to supervision or examination by Federal, State or District of Columbia authority. If such corporation

publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 6.10 Resignation and Removal;  
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 Appointment of Successor.  
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(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 6.11.

(b) The Trustee may resign at any time by giving written notice thereof to the Company. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(c) The Trustee may be removed at any time by Act of the Holders of a majority in principal amount of the Outstanding Securities, delivered to the Trustee and to the Company.

(d) If at any time:

(1) the Trustee shall fail to comply with Section 6.8(a) after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(2) the Trustee shall cease to be eligible under Section 6.9 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation

then, in any such case, (i) the Company by a Board Resolution may remove the Trustee, or (ii) subject to Section 5.14, any Holder who has been a bona fide Holder of a Security for at least six

months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Company, by a Board Resolution, shall promptly appoint a successor Trustee. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Company. If no successor Trustee shall have been so appointed by the Company or the Holders and accepted appointment in the manner hereinafter provided, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) The Company shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee by mailing written notice of such event by first-class mail, postage prepaid, to all Holders as their names and addresses appear in the Security Register. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office.

Section 6.11 Acceptance of Appointment by  
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Successor.  
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Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder. Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 6.12 Merger, Conversion, Consolidation

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 or Succession to Business.  
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Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

Section 6.13 Preferential Collection of Claims

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 Against Company.  
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If the Trustee shall be or shall become a creditor, directly or indirectly, secured or unsecured, of the Company or any other obligor on the Securities, the Trustee shall be subject to and comply with the provisions of the Trust Indenture Act regarding the collection of claims against the Company or such other obligor.

Section 6.14 Appointment of Authenticating Agent.

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 The Trustee may appoint an Authenticating Agent or Agents which shall be authorized to act on behalf of the Trustee to authenticate Securities issued upon original issue and upon exchange, registration of transfer, partial conversion or partial redemption or pursuant to Section 3.6, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be subject to acceptance by the Company

and shall at all times be a corporation organized and doing business under the laws of the United States of America, any State thereof or The District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than \$50,000,000 and subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be subject to acceptance by the Company and shall mail written notice of such appointment by first-class mail, postage prepaid, to all Holders as their names and addresses appear in the Security Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Trustee agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section, and the Trustee shall be entitled to be reimbursed for such payments, subject to the provisions of Section 6.7.

If an appointment is made pursuant to this Section, the Securities may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternate certificate of authentication in the following form:

This is one of the Securities described in the within-mentioned Indenture.

State Street Bank and Trust Company  
As Trustee

By \_\_\_\_\_  
As Authenticating Agent

By \_\_\_\_\_  
Authorized Officer

ARTICLE 7

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

Section 7.1 Company to Furnish Trustee Names  
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and Addresses of Holders.  
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The Company will furnish or cause to be furnished to the Trustee

(a) semi-annually, not more than 15 days after each Regular Record Date, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders as of such Regular Record Date, and

(b) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished;

EXCLUDING from any such list names and addresses received by the Trustee in its capacity as Security Registrar.



## Section 7.2 Preservation of Information;

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Communications to Holders.  
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(a) The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustee as provided in Section 7.1 and the names and addresses of Holders received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 7.1 upon receipt of a new list so furnished.

(b) The rights of the Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and privileges of the Trustee, shall be as provided in the Trust Indenture Act.

(c) Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the Holders made pursuant to the Trust Indenture Act.

Section 7.3 Reports by Trustee.  
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(a) On or about each July 15, the Trustee shall transmit to the Holders such reports, if any, dated as of May 15, concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act in the manner provided pursuant thereto.

(b) A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which the Securities are listed, with the Commission and with the Company. The Company will notify the Trustee when the Securities are listed on any stock exchange.

Section 7.4 Reports by Company.  
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The Company shall file with the Trustee and the Commission, and transmit to the Holders, such information, documents and other reports, and such summaries thereof, as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant to the Trust Indenture Act; PROVIDED that any such information, documents or reports required to be filed with the Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 shall be filed with the Trustee within 15 days after the same is so required to be filed with the Commission.

## ARTICLE 8

## CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

Section 8.1 Company May Consolidate, Etc.,  
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 Only on Certain Terms.  
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The Company shall not consolidate with or merge into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, and the Company shall not permit any Person to consolidate with or merge into the Company or convey, transfer or lease its properties and assets substantially as an entirety to the Company, unless:

(1) in case the Company shall consolidate with or merge into another Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases the properties and assets of the Company substantially as an entirety shall be a corporation, partnership or trust, shall be organized and validly existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of (and premium, if any) and interest on all the Securities and the performance of every covenant of this Indenture on the part of the Company to be performed or observed and shall have provided for conversion rights in accordance with Article 12 hereof;

(2) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and

(3) the Company has delivered (except in the case of the conveyance, transfer or lease by any Person of its properties and assets substantially as an entirety to the Company) to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

Section 8.2 Successor Substituted.  
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Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 8.1, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities.

## ARTICLE 9

## SUPPLEMENTAL INDENTURES

Section 9.1 Supplemental Indentures Without  
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Consent of Holders.  
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Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(1) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities; or

(2) to add to the covenants of the Company for the benefit of the Holders, or to surrender any right or power herein conferred upon the Company; or

(3) to secure the Securities; or

(4) to make provision with respect to the conversion rights of Holders pursuant to the requirements of Article 12; or

(5) to cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture, PROVIDED such action pursuant to this clause (5) shall not adversely affect the interests of the Holders.

## Section 9.2 Supplemental Indentures with

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Consent of Holders.  
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With the consent of the Holders of not less than a majority in principal amount of the Outstanding Securities, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders under this Indenture; PROVIDED, HOWEVER, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or reduce the amount payable upon an optional redemption or the consideration payable to any Holder converting after a notice of redemption has been given or modify the provisions of Article 14 in a manner adverse to the Holders, or change the place of payment where, or the coin or currency in which, any Security or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or in the case of redemption, on or after the Redemption Date), or adversely affect the right to convert any Security as provided in Article 12 (except as permitted by Section 9.1(4)), or modify the provisions of this Indenture with respect to the subordination of the Securities in a manner adverse to the Holders, or

(2) reduce the percentage in principal amount of the Outstanding Securities, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(3) modify any of the provisions of this Section, Section 5.13 or Section 10.8, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Section 9.3 Execution of Supplemental Indentures.  
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In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 6.1) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which, in the Trustee's sole discretion, affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Section 9.4 Effect of Supplemental Indentures.  
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Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

Section 9.5 Conformity with Trust Indenture Act.  
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Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

Section 9.6 Reference in Securities to  
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Supplemental Indentures.  
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Securities authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities.

## ARTICLE 10

## COVENANTS

Section 10.1 Payment of Principal, Premium and Interest.  
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The Company will duly and punctually pay the principal of (and premium, if any) and interest on the Securities in accordance with the terms of the Securities and this Indenture.

Section 10.2 Maintenance of Office or Agency.  
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The Company will maintain in The Borough of Manhattan, The City of New York or in the city in which the Corporate Trust Office of the Trustee is located, an office or agency where Securities may be presented or surrendered for payment, where Securities may be surrendered for registration of transfer or exchange, where Securities may be surrendered for conversion and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies (in or outside The Borough of Manhattan, The City of New York) where the Securities may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; PROVIDED, HOWEVER, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in The Borough of Manhattan, The City of New York or in the city in which the Corporate Trust Office of the Trustee is located for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

Section 10.3 Money for Security Payments to be Held in  
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Trust.  
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If the Company shall at any time act as its own Paying Agent, it will, on or before each due date of the principal of (and premium, if any) or interest on any of the securities, segregate and hold in trust for the benefit of the Persons entitled thereto

a sum sufficient to pay the principal (and premium, if any) or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents, it will, prior to each due date of the principal of (and premium, if any) or interest on any Securities, deposit with a Paying Agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will:

(1) hold all sums held by it for the payment of the principal of (and premium, if any) or interest on Securities in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Trustee notice of any default by the Company (or any other obligor upon the Securities) in the making of any payment of principal (and premium, if any) or interest; and

(3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of (and premium, if any) or interest on any Security and remaining unclaimed for two years after such principal (and

premium, if any) or interest has become due and payable shall, subject to applicable escheat and abandoned property law, be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; PROVIDED, HOWEVER, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in The Borough of Manhattan, The City of New York and in the city in which the Corporate Trust Office of the Trustee is located, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

#### Section 10.4 Existence.

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Subject to Article 8, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights (charter and statutory) and franchises; PROVIDED, HOWEVER, that the Company shall not be required to preserve any such right or franchise if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and that the loss thereof is not disadvantageous in any material respect to the Holders.

#### Section 10.5 Maintenance of Properties.

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The Company will cause all properties used or useful in the conduct of its business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; PROVIDED, HOWEVER, that nothing in this Section shall prevent the Company from discontinuing the operation or maintenance of any of such properties if such discontinuance is, in the judgment of the Company, desirable in the conduct of its business or the business of any subsidiary and not disadvantageous in any material respect to the Holders.



Section 10.6 Payment of Taxes and Other Claims.  
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The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary, and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Company or any Subsidiary; PROVIDED, HOWEVER, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

Section 10.7 Statement by Officers as to Default.  
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The Company will deliver to the Trustee, within 120 days after the end of each fiscal year of the Company ending after the date hereof, an Officers' Certificate, stating whether or not to the best knowledge of the signers thereof the Company is in default in the performance and observance of any of the terms, provisions and conditions of Sections 10.1 to 10.8, inclusive, and if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

Section 10.8 Waiver of Certain Covenants.  
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The Company may omit in any particular instance to comply with any covenant or condition set forth in Sections 10.1 to 10.6, inclusive, if before the time for such compliance the Holders of at least a majority in principal amount of the Outstanding Securities shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such covenant or condition shall remain in full force and effect.

## ARTICLE 11

## REDEMPTION OF SECURITIES

Section 11.1 Right of Redemption.  
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The Securities may be redeemed otherwise than at the option of the Holder as provided in Article 14 at the election of the Company, as a whole or from time to time in part, at any time on or after December 1, 1998, at the Redemption Prices specified in the form of Security hereinbefore set forth, together with accrued interest to the Redemption Date.

Section 11.2 Applicability of Article.  
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Redemption of Securities at the election of the Company or otherwise, as permitted or required by any provision of this Indenture, shall be made in accordance with such provision and this Article.

Section 11.3 Election to Redeem; Notice to Trustee.  
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The election of the Company to redeem any Securities pursuant to Section 11.1 shall be evidenced by a Board Resolution. In case of any redemption at the election of the Company of less than all the Securities, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Securities to be redeemed.

Section 11.4 Selection by Trustee of Securities  
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to Be Redeemed.  
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If less than all the Securities are to be redeemed, the particular Securities to be redeemed shall be selected not more than 30 days prior to the Redemption Date by the Trustee, from the Outstanding Securities not previously called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to \$1,000 or any integral multiple thereof) of the principal amount of Securities of a denomination larger than \$1,000.

If any Security selected for partial redemption is converted in part before termination of the conversion right with respect to the portion of the Security so selected, the converted portion of such Security shall be deemed (so far as may be) to be the portion

selected for redemption. Securities which have been converted during a selection of Securities to be redeemed shall be treated by the Trustee as Outstanding for the purpose of such selection.

The Trustee shall promptly notify the Company and each Security Registrar in writing of the Securities selected for redemption and, in the case of any Securities selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

Section 11.5 Notice of Redemption.  
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Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 20 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed, at his latest address appearing in the Security Register.

All notices of redemption shall state:

- (1) the Redemption Date,
- (2) the Redemption Price,
- (3) if less than all the Outstanding Securities are to be redeemed, the identification (and, in the case of partial redemption, the principal amounts) of the particular Securities to be redeemed,
- (4) that on the Redemption Date the Redemption Price will become due and payable upon each such Security to be redeemed and that interest thereon will cease to accrue on and after said date,
- (5) the conversion price, the date on which the right to convert the principal of the Securities to be redeemed will terminate and the place or places where such Securities may be surrendered for conversion, and
- (6) the place or places where such Securities are to be surrendered for payment of the Redemption Price.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

Section 11.6 Deposit of Redemption Price.  
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Not less than one Business Day prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 10.3) an amount of money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities which are to be redeemed on that date other than any Securities called for redemption on that date which have been converted prior to the date of such deposit.

If any Security called for redemption is converted, any money deposited with the Trustee or with any Paying Agent or so segregated and held in trust for the redemption of such Security shall (subject to any right of the Holder of such Security or any Predecessor Security to receive interest as provided in the last paragraph of Section 3.7) be paid to the Company upon Company Request or, if then held by the Company, shall be discharged from such trust.

Section 11.7 Securities Payable on Redemption Date.  
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Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; PROVIDED, HOWEVER, that installments of interest whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 3.7.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the Redemption Date at the rate borne by the Security.

Section 11.8 Securities Redeemed in Part.  
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Any Security which is to be redeemed only in part shall be surrendered at an office or agency of the Company designated for that purpose pursuant to Section 10.2 (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

ARTICLE 12

CONVERSION OF SECURITIES

Section 12.1 Conversion Privilege and Conversion Price.  
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Subject to and upon compliance with the provisions of this Article, at the option of the Holder thereof, at any time after 60 days from the latest date of original issuance of the Notes, any Security or any portion of the principal amount thereof which is \$1,000 or an integral multiple of \$1,000 may be converted at the principal amount thereof, or of such portion thereof, into fully paid and nonassessable shares (calculated as to each conversion to the nearest 1/100 of a share) of Common Stock of the Company, at the conversion price, determined as hereinafter provided, in effect at the time of conversion. Such conversion right shall expire at the close of business on December 1, 2000. In case a Security or portion thereof is called for redemption or is delivered for repurchase, such conversion right in respect of the Security or portion so called shall expire at the close of business on the fifth Business Day prior to the Redemption Date, or the second Trading Day preceding the Repurchase Date (as defined in Article 14), as the case may be, unless the Company defaults in making the payment due upon redemption.

The price at which shares of Common Stock shall be delivered upon conversion (herein called the "conversion price") shall be initially \$41 7/8 per share of Common Stock. The conversion price shall be adjusted in certain instances as provided in Section 12.4.

Section 12.2 Exercise of Conversion Privilege.  
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In order to exercise the conversion privilege, the Holder of any Security to be converted shall surrender such Security, duly endorsed or assigned to the Company or in blank, at any office or agency of the Company maintained for that purpose pursuant to Section 10.2, accompanied by written notice to the Company at such office or agency that the Holder elects to convert such Security or, if less than the entire principal amount thereof is to be converted, the portion thereof to be converted. In the case of any Security that has been converted during the period from the close of business on any Regular Record Date next preceding any Interest Payment Date to the opening of business on such Interest Payment Date, interest whose Stated Maturity is on such Interest Payment Date shall be payable on such Interest Payment Date notwithstanding such conversion and such interest shall be paid to the Holder of such Security on such Regular Record Date. Securities surrendered for conversion during the period from the close of business on any Regular Record Date next preceding any Interest Payment Date to the opening of business on such Interest Payment Date (the "Interest Period") shall be accompanied by payment of an amount equal to the interest payable on such Interest Payment Date on the principal amount of Securities being surrendered for conversion; EXCEPT THAT in the case of Securities or portions thereof that have been called for redemption and, pursuant to Section 12.1 hereof, as a result of such redemption, the right to convert such Securities terminates during the Interest Period, any such Securities surrendered for conversion during such Interest Period need not be accompanied by payment of an amount equal to such interest. Except as provided in the second preceding sentence and subject to the fourth paragraph of Section 3.7, no payment or adjustment shall be made upon any conversion on account of any interest accrued on the Securities surrendered for conversion or on account of any dividends on the Common Stock issued upon conversion. All payments required by this paragraph to be made by the Holder upon the surrender of Securities for conversion shall be made in New York Clearing House Funds or other funds acceptable to the Company.

Securities shall be deemed to have been converted immediately prior to the close of business on the day of surrender of such Securities for conversion in accordance with the foregoing provisions, and at such time the rights of the Holders of such Securities as Holders shall cease, and the Person or Persons entitled to receive the Common Stock issuable upon conversion shall be treated for all purposes as the record holder or holders of such Common Stock at such time. As promptly as practicable on or after the conversion date, the Company shall issue and shall deliver at such office or agency a certificate or certificates for

the number of full shares of Common Stock issuable upon conversion, together with payment in lieu of any fraction of a share, as provided in Section 12.3.

In the case of any Security which is converted in part only, upon such conversion the Company shall execute and the Trustee shall authenticate and deliver to the Holder thereof, at the expense of the Company, a new Security or Securities of authorized denominations in aggregate principal amount equal to the unconverted portion of the principal amount of such Security.

Section 12.3 Fractions of Shares.  
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No fractional shares of Common Stock shall be issued upon conversion of Securities. If more than one Security shall be surrendered for conversion at one time by the same Holder, the number of full shares which shall be issuable upon conversion thereof shall be computed on the basis of the aggregate principal amount of the Securities (or specified portions thereof) so surrendered. Instead of any fractional share of Common Stock which would otherwise be issuable upon conversion of any Security or Securities (or specified portions thereof), the Company shall pay a cash adjustment in respect of such fraction in an amount equal to the same fraction of the market price per share of Common Stock (as determined by the Board of Directors or in any manner prescribed by the Board of Directors) at the close of business on the day of conversion.

Section 12.4 Adjustment of Conversion Price.  
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(1) In case the Company shall pay or make a dividend or other distribution on any class of capital stock of the Company in Common Stock, the conversion price in effect at the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution shall be reduced by multiplying such conversion price by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination and the denominator shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution, such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination. For the purposes of this paragraph (1), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Company will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company.

(2) In case the Company shall issue rights, options or warrants to all holders of its Common Stock entitling them to subscribe for or purchase shares of Common Stock at a price per share less than the current market price per share (determined as provided in paragraph (8) of this Section) of the Common Stock on the date fixed for the determination of stockholders entitled to receive such rights or warrants, the conversion price in effect at the opening of business on the day following the date fixed for such determination shall be reduced by multiplying such conversion price by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock which the aggregate of the offering price of the total number of shares of Common Stock so offered for subscription or purchase would purchase at such current market price and the denominator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock so offered for subscription or purchase, such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination. For the purposes of this paragraph (2), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Company will not issue any rights, options or warrants in respect of shares of Common Stock held in the treasury of the Company.

(3) In case outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the conversion price in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately reduced, and, conversely, in case outstanding shares of Common Stock shall each be combined into a smaller number of shares of Common Stock, the conversion price in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased, such reduction or increase, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(4) In case the Company shall, by dividend or otherwise, distribute to all holders of its Common Stock evidences of its indebtedness, shares of any class of capital stock, cash or assets (including Securities, but excluding any (i) rights, options or warrants referred to in paragraph (2) of this Section, (ii) any dividend or distribution paid exclusively in cash, (iii) any dividend or distribution referred to in paragraph (1) of this



Section and (iv) any merger or consolidation to which Section 12.11 applies), the conversion price shall be adjusted so that the same shall equal the price determined by multiplying the conversion price in effect immediately prior to the close of business on the date fixed for the determination of stockholders entitled to receive such distribution by a fraction of which the numerator shall be the current market price per share (determined as provided in paragraph (8) of this Section) of the Common Stock on the date fixed for such determination less the then fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution filed with the Trustee) of the portion of the assets, shares or evidences of indebtedness so distributed applicable to one share of Common Stock and the denominator shall be such current market price per share of the Common Stock, such adjustment to become effective immediately prior to the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such distribution.

Notwithstanding the foregoing, in the event that the Company shall distribute rights or warrants (other than those referred to in paragraph (2) of this Section) ("Rights") pro rata to holders of Common Stock, the Company shall make proper provision so that each Holder of a Security who converts such Security (or any portion thereof) after the record date for such distribution and prior to the expiration or redemption of the Rights shall be entitled to receive upon such conversion, in addition to the shares of Common Stock issuable upon such conversion (the "Conversion Shares"), a number of Rights to be determined as follows: (i) if such conversion occurs on or prior to the date for the distribution to the holders of Rights of separate certificates evidencing such Rights (the "Distribution Date"), the same number of Rights to which a holder of a number of shares of Common Stock equal to the number of Conversion Shares is entitled at the time of such conversion in accordance with the terms and provisions of and applicable to the Rights; and (ii) if such conversion occurs after the Distribution Date, the same number of Rights to which a holder of the number of shares of Common Stock into which the principal amount of the Security so converted was convertible immediately prior to the Distribution Date would have been entitled on the Distribution Date in accordance with the terms and provisions of and applicable to the Rights.

(5) In case the Company shall, by dividend or otherwise, distribute to all holders of its Common Stock cash (excluding any cash that is distributed upon a merger or consolidation to which Section 12.11 applies or as part of a distribution referred to in paragraph (4) of this Section) in an aggregate amount that, combined together with (I) the aggregate amount of any other distributions to all holders of its Common Stock made exclusively in cash within the 12 months preceding the date of payment of such

distribution and in respect of which no adjustment pursuant to this paragraph (5) has been made and (II) the aggregate of any cash plus the fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution) of consideration payable in respect of any tender offer by the Company or any of its subsidiaries for all or any portion of the Common Stock concluded within the 12 months preceding the date of payment of such distribution and in respect of which no adjustment pursuant to paragraph (6) of this Section has been made, exceeds 12.5% of the product of the current market price per share of the Common Stock on the date for the determination of holders of shares of Common Stock entitled to receive such distribution times the number of shares of Common Stock outstanding on such date, then, and in each such case, immediately after the close of business on such date for determination, the conversion price shall be adjusted so that the same shall equal the price determined by multiplying the conversion price in effect immediately prior to the close of business on the date fixed for determination of the stockholders entitled to receive such distribution by a fraction (i) the numerator of which shall be equal to the current market price per share (determined as provided in paragraph (8) of this Section) of the Common Stock on the date fixed for such determination less an amount equal to the quotient of (x) the excess of such combined amount over such 12.5% and (y) the number of shares of Common Stock outstanding on such date for determination and (ii) the denominator of which shall be equal to the current market price per share (determined as provided in paragraph (8) of this Section) of the Common Stock on such date for determination.

(6) In case a tender offer made by the Company or any Subsidiary for all or any portion of the Common Stock shall expire and such tender offer (as amended upon the expiration thereof) shall require the payment to stockholders (based on the acceptance (up to any maximum specified in the terms of the tender offer) of Purchased Shares (as defined below)) of an aggregate consideration having a fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution) that combined together with (I) the aggregate of the cash plus the fair market value (as determined by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution), as of the expiration of such tender offer, of consideration payable in respect of any other tender offer by the Company or any Subsidiary for all or any portion of the Common Stock expiring within the 12 months preceding the expiration of such tender offer and in respect of which no adjustment pursuant to this paragraph (6) has been made and (II) the aggregate amount of any distributions to all holders of the Company's Common Stock made exclusively in cash within 12 months preceding the expiration of such tender offer and in

respect of which no adjustment pursuant to paragraph (5) of this Section has been made, exceeds 15% of the product of the current market price per share of the Common Stock (determined as provided in paragraph (8) of this Section) as of the last time (the "Expiration Time") tenders could have been made pursuant to such tender offer (as it may be amended) times the number of shares of Common Stock outstanding (including any tendered shares) as of the Expiration Time, then, and in each such case, immediately prior to the opening of business on the day after the date of the Expiration Time, the conversion price shall be adjusted so that the same shall equal the price determined by multiplying the conversion price immediately prior to close of business on the date of the Expiration Time by a fraction (i) the numerator of which shall be equal to (A) the product of (I) the current market price per share of the Common Stock (determined as provided in paragraph (8) of this Section) on the date of the Expiration Time and (II) the number of shares of Common Stock outstanding (including any tendered shares) on the Expiration Time less (B) the amount of cash plus the fair market value (determined as aforesaid) of the aggregate consideration payable to stockholders based on the acceptance (up to any maximum specified in the terms of the tender offer) of Purchased Shares, and (ii) the denominator of which shall be equal to the product of (A) the current market price per share of the Common Stock (determined as provided in paragraph (8) of this Section) as of the Expiration Time and (B) the number of shares of Common Stock outstanding (including any tendered shares) as of the Expiration Time less the number of all shares validly tendered and not withdrawn as of the Expiration Time (the shares deemed so accepted up to any such maximum, being referred to as the "Purchased Shares").

(7) The reclassification of Common Stock into securities including other than Common Stock (other than any reclassification upon a consolidation or merger to which Section 12.11 applies) shall be deemed to involve (a) a distribution of such Securities other than Common Stock to all holders of Common Stock (and the effective date of such reclassification shall be deemed to be "the date fixed for the determination of stockholders entitled to receive such distribution" and "the date fixed for such determination" within the meaning of paragraph (4) of this Section), and (b) a subdivision or combination, as the case may be, of the number of shares of Common Stock outstanding immediately prior to such reclassification into the number of shares of Common Stock outstanding immediately thereafter (and the effective date of such reclassification shall be deemed to be "the day upon which such subdivision becomes effective" or "the day upon which such combination becomes effective," as the case may be, and "the day upon which such subdivision or combination becomes effective" within the meaning of paragraph (3) of this Section).

(8) For the purpose of any computation under paragraphs (2), (4), (5) and (6) of this Section, the current market price per share of Common Stock on any date shall be deemed to be the average of the daily Closing Prices for the five consecutive Business Days selected by the Company commencing not more than ten Business Days before the day in question.

(9) The Company may make such reductions in the conversion price, in addition to those required by paragraphs (1), (2), (3), (4), (5) and (6) of this Section, as it considers to be advisable in order that any event treated for Federal income tax purposes as a dividend of stock or stock rights shall not be taxable to the recipients.

(10) Notwithstanding any other provision of this Section 12.4, the Company shall not be required to make any adjustment of the conversion price unless such adjustment (together with any prior adjustments that were not made as a result of this clause (10)) would require an increase or decrease of at least 1% of such conversion price.

Section 12.5 Notice of Adjustments of Conversion Price.  
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Whenever the conversion price is adjusted as herein provided:

(a) the Company shall compute the adjusted conversion price in accordance with Section 12.4 and shall prepare a certificate signed by the Treasurer of the Company setting forth the adjusted conversion price and showing in reasonable detail the facts upon which such adjustment is based, and such certificate shall forthwith be filed with the Trustee and at each office or agency maintained for the purpose of conversion of Securities pursuant to Section 10.2; and

(b) a notice stating that the conversion price has been adjusted and setting forth the adjusted conversion price shall forthwith be required, and as soon as practicable after it is required, such notice shall be mailed by the Company to all Holders at their last addresses as they shall appear in the Security Register.

The Trustee may conclusively rely upon the last Treasurer's certificate filed with it pursuant to paragraph (a) hereof as to the conversion price then in effect.

Section 12.6 Notice of Certain Corporate Action.  
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In case:

(a) the Company shall declare a dividend (or any other distribution) on its Common Stock payable (i) otherwise than exclusively in cash or (ii) exclusively in cash in an amount that would require any adjustment pursuant to Section 12.4; or

(b) the Company shall authorize the granting to the holders of its Common Stock of rights, options or warrants to subscribe for or purchase any shares of capital stock of any class or of any other rights; or

(c) of any reclassification of the Common Stock of the Company (other than a subdivision or combination of its outstanding shares of Common Stock), or of any consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required, or of the sale or transfer of all or substantially all of the assets of the Company; or

(d) of the voluntary or involuntary dissolution, liquidation or winding up of the Company; or

(e) the Company or any Subsidiary shall commence a tender offer for all or a portion of the Company's outstanding shares of Common Stock (or shall amend any such tender offer);

then the Company shall cause to be filed at each office or agency maintained for the purpose of conversion of Securities pursuant to Section 10.2, and shall cause to be mailed to all Holders at their last addresses as they shall appear in the Security Register, at least 20 days (or 10 days in any case specified in clause (a) or (b) above) prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, rights, options or warrants, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution, rights, options or warrants are to be determined, or (y) the date on which such reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding up.

Section 12.7 Company to Reserve Common Stock.  
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The Company shall at all times reserve and keep available, free from pre-emptive rights, out of its authorized but unissued Common Stock, for the purpose of effecting the conversion of Securities, the full number of shares of Common Stock then issuable upon the conversion of all Outstanding Securities.

Section 12.8 Taxes on Conversions.  
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The Company will pay any and all taxes that may be payable in respect of the issue or delivery of shares of Common Stock on conversion of Securities pursuant hereto. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock in a name other than that of the Holder of the Security or Securities to be converted, and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Company the amount of any such tax, or has established to the satisfaction of the Company that such tax has been paid.

Section 12.9 Covenant as to Common Stock.  
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The Company covenants that all shares of Common Stock which may be issued upon conversion of Securities will upon issue be fully paid and nonassessable and, except as provided in Section 12.8, the Company will pay all taxes, liens and charges with respect to the issue thereof.

Section 12.10 Cancellation of Converted Securities.  
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All Securities delivered for conversion shall be delivered to the Trustee to be cancelled by or at the direction of the Trustee, which shall dispose of the same as provided in Section 3.9.

Section 12.11 Provisions in Case of Consolidation,  
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Merger or Sale of Assets.  
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In case of any consolidation of the Company with, or merger of the Company into, any other Person, any merger of another Person into the Company (other than a merger which does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Common Stock of the Company) or any sale or transfer of all or substantially all of the assets of the Company, the Person formed by such consolidation or resulting from such merger or which acquires such assets, as the case may be, shall execute and deliver to the Trustee a supplemental indenture providing that the Holder of each Security then outstanding shall have the right thereafter, during the period such Security shall

be convertible as specified in Section 12.1, to convert such Security only into the kind and amount of securities, cash and other property receivable upon such consolidation, merger, sale or transfer by a holder of the number of shares of Common Stock of the Company into which such Security might have been converted immediately prior to such consolidation, merger, sale or transfer, assuming such holder of Common Stock of the Company (i) is not a Person with which the Company consolidated or into which the Company merged or which merged into the Company or to which such sale or transfer was made, as the case may be ("Constituent Person"), or an Affiliate of a Constituent Person and (ii) failed to exercise his rights of election, if any, as to the kind or amount of Securities, cash and other property receivable upon such consolidation, merger, sale or transfer (provided that if the kind or amount of Securities, cash and other property receivable upon such consolidation, merger, sale or transfer is not the same for each share of Common Stock of the Company held immediately prior to such consolidation, merger, sale or transfer by others than a Constituent Person or an Affiliate thereof and in respect of which such rights of election shall not have been exercised ("non-electing share"), then for the purpose of this Section the kind and amount of securities, cash and other property receivable upon such consolidation, merger, sale or transfer by each non-electing share shall be deemed to be the kind and amount so receivable per share by a plurality of the non-electing shares). Such supplemental indenture shall provide for adjustments which, for events subsequent to the effective date of such supplemental indenture, shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article. The above provisions of this Section shall similarly apply to successive consolidations, mergers, sales or transfers.

#### ARTICLE 13

##### SUBORDINATION OF SECURITIES

###### Section 13.1 Securities Subordinated to Senior Indebtedness.

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All Securities issued under this Indenture shall be issued subject to the following provisions and each Holder of any Security whether upon original issue or upon transfer or assignment thereof accepts and agrees to be bound by such provisions.

All Securities issued hereunder shall, to the extent and in the manner hereinafter set forth, be subordinated and subject in right of payment to the prior payment in full of all Senior Indebtedness as defined in this Section. The term "Senior Indebtedness" shall mean (a) all indebtedness of the Company,

including the principal of and premium, if any, and interest on such indebtedness whether outstanding on the date of this Indenture or thereafter created, (i) for borrowed money, (ii) for money borrowed by others and guaranteed, directly or indirectly, by the Company, (iii) constituting purchase money indebtedness for the payment of which the Company is directly or contingently liable, (iv) constituting reimbursement obligations under bank letters of credit, (v) under interest rate and currency swaps, caps, floors, collars or similar agreements or arrangements intended to protect the Company against fluctuations in interest or currency rates, (vi) under any lease of any real or personal property, whether outstanding on the date of execution of this Indenture or thereafter created, incurred or assumed, which obligations are capitalized on the books of the Company in accordance with generally accepted accounting principles, unless, in any such case, by the terms of the instrument creating or evidencing such indebtedness it is provided that such indebtedness is not superior in right of payment to the Securities or to other indebtedness which is PARI PASSU with, or subordinated to, the Securities, or (vi) all obligations of others of the kind described in the preceding clauses (i), (ii), (iii), (iv), (v) and (vi) assumed by or guaranteed by the Company, and (b) any modifications, refundings, deferrals, renewals or extensions of any such Senior Indebtedness, or securities, notes or other evidences of indebtedness issued in exchange for such Senior Indebtedness. As used in the preceding sentence the term "purchase money indebtedness" shall mean indebtedness evidenced by a note, debenture, bond or other similar instrument (whether or not secured by any lien or other security interest) given in connection with the acquisition of any business, properties or assets of any kind acquired by the Company or any Subsidiary; PROVIDED, HOWEVER, that, without limiting the generality of the foregoing, such term shall not include any conditional sale contract or any account payable or any other indebtedness created or assumed by the Company in the ordinary course of business in connection with the obtaining of inventories or services.

Section 13.2 No Payments in Certain Circumstances; Payment  
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 Over of Proceeds Upon Dissolution, Etc.  
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No payment on account of principal, premium, if any, or interest on, or redemption or repurchase of, the Securities shall be made if, at the time of such payment or immediately after giving effect thereto: (i) there shall exist a default in the payment of principal, premium, if any, sinking funds or interest (including a default under any purchase or redemption obligations) with respect to any Senior Indebtedness, or (ii) there shall have occurred an event of default (other than a default in the payment of principal, premium, if any, sinking funds or interest) with respect to any Senior Indebtedness, as defined therein or in the



instrument under which the same is outstanding, permitting the holders thereof to accelerate the maturity thereof and written notice of such occurrence shall have been given to the Company and to the Trustee under this Indenture by the holder or holders of such Senior Indebtedness and such event of default shall not have been cured or waived or shall not have ceased to exist. Notwithstanding the foregoing, the Company may make and the Trustee may receive and shall apply any payment in respect of the Securities (for principal, premium, if any, or interest or repurchase) if such payment was made prior to the occurrence of any of the contingencies specified in clauses (i) and (ii) above. In addition, nothing in this paragraph shall prevent the Company from making or the Trustee from receiving or applying any payment in connection with the redemption of Securities if the first publication of notice of such redemption (whether by mail or otherwise in accordance with this Indenture) has been made prior to the occurrence of any of the contingencies specified in clauses (i) and (ii) above.

Upon (i) any acceleration of the principal amount due on the Securities or (ii) any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to creditors upon any dissolution or winding up or total or partial liquidation or reorganization of the Company, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all principal, premium, if any, and interest due or to become due upon all Senior Indebtedness (including interest thereon accruing after the commencement of any such proceedings) shall first be paid in full, or payment thereof provided for in money or money's worth in accordance with its terms, before any payment is made on account of the principal of, premium, if any, or interest on, or repurchase of, the indebtedness evidenced by the Securities, and upon any such dissolution or winding up or liquidation or reorganization any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Holders of the Securities or the Trustee under this Indenture would be entitled, except for the provisions hereof, shall be paid by the Company or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other Person making such payment or distribution, or by the Holders of the Securities or by the Trustee under this Indenture if received by them or it, as the case may be, directly to the holders of Senior Indebtedness (pro rata to each such holder on the basis of the respective amounts of Senior Indebtedness held by such holder) or their representatives, to the extent necessary to pay all Senior Indebtedness in full, in money or money's worth, after giving effect to any concurrent payment or distribution to or for the holders of Senior Indebtedness, before any payment or distribution is made to the Holders of the Securities or to the Trustee under this Indenture.

In the event that, contrary to the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, shall be received by the Trustee or the Holders of the Securities before all Senior Indebtedness is paid in full or provision made for such payment, in accordance with its terms, such payment or distribution shall be held in trust for the benefit of, and shall be paid over or delivered to, the holders of such Senior Indebtedness or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any of such Senior Indebtedness have been issued, as their respective interests may appear, for application to the payment of all Senior Indebtedness remaining unpaid to the extent necessary to pay all such Senior Indebtedness in full in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the holders of such Senior Indebtedness.

Subject to the payment in full of all Senior Indebtedness, the Holders of the Securities (together with the holders of any other indebtedness of the Company which is subordinated in right of payment to the payment in full of all Senior Indebtedness, which is not subordinated in right of payment to the Securities and which by its terms grants such right of subrogation to the holders thereof) shall be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions of assets of the Company made on the Senior Indebtedness until the principal of and premium, if any, and interest on, or repurchase of, the Securities shall be paid in full; and, for the purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness of any cash, property or securities to which the Holders of the Securities or the Trustee would be entitled except for the provisions of this Article, and no payment over pursuant to the provisions of this Article to the holders of Senior Indebtedness by the Holders of the Securities or the Trustee, shall, as between the Company, its creditors other than the holders of Senior Indebtedness, and the Holders of Securities, be deemed to be a payment by the Company to the Holders of or on account of the Securities, it being understood that the provisions of this Article are and are intended solely for the purpose of defining the relative rights of the Holders of the Securities, on the one hand, and the holders of Senior Indebtedness, on the other hand.

Section 13.3 Notice to Trustee of Specified Events;  
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 Reliance on Certificate of Liquidating Agent.  
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The Company shall give prompt written notice to the Trustee of any insolvency or bankruptcy proceeding in respect of the Company, of any proceedings for voluntary liquidation, dissolution or other winding up of the Company (whether or not involving

insolvency or bankruptcy), of the declaration of any Security as due and payable before its expressed maturity, and of any event which pursuant to Section 13.2 would prevent payment by the Company on account of the principal, premium, if any, or interest on, or repurchase of, the Securities. The Trustee, subject to the provisions of Section 6.1, shall be entitled to assume that no such event has occurred unless the Company, or a holder of Senior Indebtedness, or any trustee therefor, has given such notice.

Upon any distribution of assets of the Company or payment by or on behalf of the Company referred to in this Article, the Trustee and the Holders of the Securities shall be entitled to rely upon any order or decree of a court of competent jurisdiction in which any proceedings of the nature referred to in Section 13.2 are pending, and the Trustee, subject to the provisions of Section 6.1, and the Holders of the Securities shall be entitled to rely upon a certificate of the liquidating trustee or agent or other Person making any distribution to the Trustee or to the Holders of the Securities for the purpose of ascertaining the Persons entitled to participate in such distribution, the holders of the Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article. In the event that the Trustee determines, in good faith, that further evidence is required with respect to the right of any Person as a holder of Senior Indebtedness to participate in any payment or distribution pursuant to this Article, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Indebtedness held by such Person, as to the extent to which such Person is entitled to participate in such payment or distribution, and as to other facts pertinent to the rights of such Person under this Article, and if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment.

#### Section 13.4 Trustee to Effectuate Subordination.

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The Holder of each Security by his acceptance thereof authorizes and directs the Trustee in his behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination as provided in this Article and appoints the Trustee as attorney-in-fact for any and all such purposes.

Section 13.5 Trustee Not Charged with Knowledge of  
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 Prohibition.  
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Notwithstanding the provisions of this Article or any other provision of this Indenture, but subject to the provisions of Section 6.1 as between the Holders of Securities and the Trustee, neither the Trustee nor any Paying Agent shall be charged with knowledge of any facts which would prohibit the making of any payment of moneys to or by the Trustee or any such Paying Agent, unless and until the Trustee or such Paying Agent shall have received written notice thereof at its Corporate Trust Office from the Company or any holder of Senior Indebtedness or the trustee or representative of the holder of such Senior Indebtedness on his behalf; and, prior to the receipt of any such written notice, the Trustee and any such Paying Agent shall be entitled to assume that no such facts exist. If the Trustee or Paying Agent, as the case may be, shall not have received, at least three Business Days prior to the date upon which by the terms hereof any such moneys may become payable for any purpose (including, without limitation, the payment of the principal of or premium, if any, or the interest on any Security) with respect to such moneys, the notice provided for in this Section, then, anything herein contained to the contrary notwithstanding, the Trustee and such Paying Agent as the case may be, shall have full power and authority to receive such moneys and to apply the same to the purpose for which they were received and shall not be affected by any notice to the contrary which may be received by it within three Business Days prior to such date.

Section 13.6 Rights of Trustee as Holder of Senior  
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 Indebtedness.  
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The Trustee shall be entitled to all the rights set forth in this Article with respect to any Senior Indebtedness which may be at any time held by it to the same extent as any other holder of Senior Indebtedness; and nothing in Section 6.13, or elsewhere in this Indenture, shall deprive the Trustee of any of its rights as such holder. Nothing in this Article shall apply to claims of, or payments to, the Trustee under or pursuant to Section 6.7.

Section 13.7 Trustee Not Fiduciary for Holders of Senior  
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 Indebtedness.  
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The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness and shall not be liable to any such holders if it shall mistakenly pay over or distribute to Holders of Securities or the Company or any other Person moneys or assets to which any holders of Senior Indebtedness shall be entitled by virtue of this Article or otherwise.

Section 13.8 Article Applicable to Paying Agent.  
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In case at any time any Paying Agent other than the Trustee shall have been appointed by the Company and be then acting hereunder, the term "Trustee" as used in this Article shall in such case (unless the context shall otherwise require) be construed as extending to and including such Paying Agent within its meaning as fully for all intents and purposes as if such Paying Agent were named in this Article in addition to or in place of the Trustee; PROVIDED, HOWEVER, that Section 13.5, 13.6 and 13.7 shall not apply to the Company if it acts as Paying Agent.

ARTICLE 14

REPURCHASE OF SECURITIES AT THE OPTION  
OF THE HOLDER UPON A CHANGE IN CONTROL

Section 14.1 Right to Require Repurchase.  
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In the event that a Change in Control (as hereinafter defined) shall occur, then each Holder shall have the right, at the Holder's option, to require the Company to repurchase, and upon the exercise of such right the Company shall repurchase, all of such Holder's Securities, or any portion of the principal amount thereof that is an integral multiple of \$1,000, on the date (the "Repurchase Date") that is 45 days after the date of the Company Notice (as defined in Section 14.2) at a purchase price equal to 100% of the principal amount of the Securities to be repurchased (the "Repurchase Price"), together in each case with accrued interest to the Repurchase Date. Such right to require the repurchase of the Securities shall not continue after a discharge of the Company from its obligations with respect to the Securities in accordance with Article 4, unless a Change in Control shall have occurred prior to such discharge. The Repurchase Price shall be paid in cash.

Section 14.2 Notices; Method of Exercising  
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Repurchase Right, Etc.  
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(a) Unless the Company shall have theretofore called for redemption all the outstanding Securities, on or before the 30th day after the occurrence of a Change in Control, the Company or, at the written request of the Company, the Trustee, shall mail to all Holders a notice (the "Company Notice") as prepared by the Company of the occurrence of the Change in Control and of the repurchase right set forth herein arising as a result thereof. The Company shall also deliver a copy of such notice of a repurchase right to the Trustee and cause a copy of such notice of

a repurchase right, or a summary of the information contained therein, to be published in a newspaper of general circulation in The Borough of Manhattan, The City of New York and the County of Suffolk, The City of Boston, Massachusetts.

Each notice of a repurchase right shall state:

- (1) the Repurchase Date,
- (2) the date by which the repurchase right must be exercised,
- (3) the Repurchase Price,
- (4) a description of the procedure which a Holder must follow to exercise a repurchase right, and
- (5) the conversion price then in effect, the date on which the right to convert the principal amount of the Securities to be repurchased will terminate and the place or places where such Securities may be surrendered for conversion or repurchase.

In addition, at least two Business Days preceding the Repurchase Date, the Company shall cause to be published, in a newspaper of general circulation in The Borough of Manhattan, The City of New York, and the County of Suffolk, The City of Boston, Massachusetts a notice specifying whether the Repurchase Price will be payable in cash.

No failure of the Company to give the foregoing notices or defect therein shall limit any Holder's right to exercise a repurchase right or affect the validity of the proceedings for the repurchase of Securities.

If any of the foregoing provisions are inconsistent with applicable law, such law shall govern.

(b) To exercise a repurchase right, a Holder shall deliver to the Trustee on or before the 30th day after the date of the Company Notice (i) written notice of the Holder's exercise of such right, which notice shall set forth the name of the Holder, the principal amount of the Securities to be repurchased, a statement that an election to exercise the repurchase right is being made thereby, and (ii) the Securities with respect to which the repurchase right is being exercised, duly endorsed for transfer to the Company. Such written notice shall be executed by the Holder

and shall be irrevocable, except that the right of the Holder to convert the Securities with respect to which the repurchase right is being exercised shall continue until the close of business on the second Trading Day preceding the Repurchase Date.

(c) In the event a repurchase right shall be exercised in accordance with the terms hereof, the Company shall pay or cause to be paid the Repurchase Price in cash as provided above, to the Holder on the Repurchase Date as promptly after the Repurchase Date as practicable, together with accrued and unpaid interest to the Repurchase Date payable with respect to the Securities as to which the repurchase right has been exercised; PROVIDED, HOWEVER, that installments of interest that mature on or prior to the Repurchase Date shall be payable in cash to the Holders of such Securities, or one or more predecessor Securities, registered as such at the close of business on the relevant Regular Record Date according to the terms and provisions of Article 3.

(d) If any Security surrendered for repurchase shall not be so paid on the Repurchase Date, the principal shall, until paid, bear interest to the extent permitted by applicable law from the Repurchase Date at the rate borne by the Security and each Security shall remain convertible into Common Stock until the principal of such Security shall have been paid or duly provided for.

(e) Any Security which is to be repurchased only in part shall be surrendered to the Trustee (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities, of any authorized denomination as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

#### Section 14.3 Certain Definitions.

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For purposes of this Article:

(a) the term "beneficial owner" shall be determined in accordance with Rule 13d-3, as in effect on the date of the original execution of this Indenture, promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended;

(b) the term "Common Stock" shall mean capital stock of the Company that does not rank prior, as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, to shares of capital stock of any other class of the Company;

(c) a "Change in Control" shall be deemed to have occurred at such time after the original issuance of the Securities as there shall occur:

- (i) the acquisition by any Person of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of transactions, of shares of capital stock of the Company entitling such Person to exercise 50% or more of the total voting power of all shares of capital stock of the Company entitled to vote generally in the elections of directors (any shares of voting stock of which such Person is the beneficial owner that are not then outstanding being deemed outstanding for purposes of calculating such percentage); or
- (ii) any consolidation of the Company with, or merger of the Company into, any other Person, any merger of another Person into the Company, or any sales or transfer of all or substantially all of the assets of the Company to another Person (other than a merger (x) which does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Common Stock or (y) which is effected solely to change the jurisdiction of incorporation of the Company and results in a reclassification, conversion or exchange of outstanding shares of Common Stock into solely shares of common stock); or
- (iii) a change in the Board of Directors of the Company in which the individuals who constituted the Board of Directors of the Company at the beginning of the 24-month period immediately preceding such change (together with any other director whose election by the Board of Directors of the Company or whose nomination for election by the stockholders of the Company was approved by a vote of at least a majority of the directors then in office either who were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the directors then in office;



PROVIDED, HOWEVER, that a Change in Control shall not be deemed to have occurred if either (x) the Closing Price on any five Trading Days within the period of 10 consecutive Trading Days ending immediately after the later of the date of the Change in Control or the date of the public announcement of the Change in Control (in the case of a Change in Control under clause (i) above) or the period of 10 consecutive Trading Days ending immediately prior to the date of the Change in Control (in the case of a Change in Control under clause (ii) above) shall equal or exceed 105% of the conversion price in effect on each such Trading Day or (y) (i) all the consideration (excluding cash payments for fractional shares) to be paid for the Common Stock in the transaction or transactions constituting the Change in Control consists of shares of common stock traded on a national securities exchange or quoted on the Nasdaq National Market and as a result of such transaction or transactions the Securities become convertible solely into such common stock, and (ii) after giving effect to such transaction or transactions and for a period of 12 months thereafter, the Notes have a rating of (A) "Ba1" or better (or equivalent rating under successor ratings classification system) by Moody's Investors Services, Inc. and (B) "BBB" or better (or equivalent rating under a successor ratings classification system) by Standard & Poor's Corporation; and

(d) the term "Person" shall include any syndicate or group which would be deemed to be a "person" under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, as in effect on the date of the original execution of this Indenture.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

Attestation as to  
the Corporate Seal:

ANALOG DEVICES, INC.

/S/ William A. Wise

By /S/ Jerald G. Fishman

-----  
Assistant Clerk

-----  
Name: Jerald G. Fishman  
Title: President and  
Chief Operating Officer

Attest:

STATE STREET BANK AND TRUST  
COMPANY  
As Trustee

/S/ Ruth A. Smith

By /S/ Henry W. Seemore

-----  
Name: Henry W. Seemore  
Title: Assistant Vice President

COMMONWEALTH OF MASSACHUSETTS ) ss.:  
COUNTY OF SUFFOLK )

On the 15TH day of December, 1995, before me personally came JERALD G. FISHMAN to me known, who, being by me duly sworn, did depose and say that he is PRESIDENT AND CHIEF OPERATING OFFICER of Analog Devices, Inc., one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/S/ Rebecca Hughes

-----  
My Commission Expires: 8/18/2000

COMMONWEALTH OF MASSACHUSETTS ) ss.:  
COUNTY OF SUFFOLK )

On the 15TH day of December, 1995, before me personally came HENRY W. SEEMORE to me known, who, being by me duly sworn, did depose and say that he/she is AN ASSISTANT VICE PRESIDENT of State Street Bank and Trust Company, a Massachusetts banking corporation described in and which executed the foregoing instrument; that he/she knows the seal of said association; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said association, and that he/she signed his/her name thereto by like authority.

/S/ Cecil A. Gilbert

-----  
Cecil A. Gilbert  
Notary Public  
My Commission Expires July 12, 2002

## LEASE

FERRARI BROTHERS,  
a California general partnership

Landlord

ANALOG DEVICES, INC.,  
a Massachusetts corporation

Tenant

DATED: June 16 , 1995  
-----

## ADDRESS OF PREMISES:

610 Weddell Drive  
Sunnyvale, California 94086  
Fabrication Facility

## LEASE SUMMARY

## Parties:

Landlord: Ferrari Brothers, a California general partnership

Tenant: Analog Devices, Inc., a Massachusetts corporation

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

Building: 610 Weddell Drive, Sunnyvale, California

## Scheduled Commencement

Date: June 16 , 1995

Expiration Date: March 31, 2000

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

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

Tenant's Share of Building: 43.4%

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

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EXHIBITS

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

## LEASE

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

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

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

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

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

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

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

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

3. Rent.

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

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

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

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

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

## 5. Taxes.

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

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

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

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

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

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

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

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

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

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

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

6. Use.

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

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

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

7. Hazardous Materials.

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

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

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



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

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

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

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

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

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

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

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

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

9. Operating Expenses.

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

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

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

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

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

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

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

10. Maintenance and Repairs.

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

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

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

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

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

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

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

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

11. Alterations.

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

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

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



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

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

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

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

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

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

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

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

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

13. Indemnity.

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

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

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

14. Insurance.

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

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

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

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

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

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

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

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

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

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

15. Damage or Destruction.

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

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

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



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

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

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

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

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

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

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

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

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

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

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

16. Condemnation.

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

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

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

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

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

17. Assignment and Subletting.

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

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

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

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

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

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

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

18. Events of Default and Remedies.

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

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

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

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

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

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

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

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

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

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

(a) maintenance and preservation of the Premises;

(b) efforts to relet the Premises;

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

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

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

(3) DAMAGES. In the event this Lease is terminated pursuant to subparagraph 18.2(2) above, Landlord shall be entitled to damages in the following sums:

(a) the worth at the time of award of the unpaid rent which had been earned at the time of termination; plus

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

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

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



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

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

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

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

21. Subordination and Attornment.

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

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

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

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

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

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

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

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

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

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

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

29. Option(s) to Extend Term.

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

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

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

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

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

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

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

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

31. REASONABLE CONSENT. Whenever any party's approval or consent is required by this Lease, such consent or approval shall not be unreasonably withheld or delayed.

## 32. Cure Period.

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32.1 CURE BY LANDLORD. Landlord shall not be deemed to be in default in the performance of any obligation required to be performed by it hereunder unless and until it has failed to perform such obligation within the period of time specifically provided herein, or if no period of time has been provided, then within thirty (30) days after receipt of written notice by Tenant to Landlord specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are reasonably required for its performance, then Landlord shall not be deemed to be in default if it shall commence such performance within such thirty (30) day period and thereafter diligently prosecute the same to completion. It is understood that, for purposes of Paragraphs 9.1, 13 and 10.1, the term "omissions", as used therein, shall mean only omissions by Landlord which if not cured with the time period permitted in this Paragraph 32 would result in a default of Landlord hereunder.

32.2 CURE BY TENANT. In the event Landlord is deemed in default with respect to its obligation to repair and maintain the roof of the Building as provided elsewhere in this Lease, Tenant shall be entitled, after written notice to such effect to Landlord, to make such repairs and shall have the right to demand reimbursement by Landlord of the cost thereof, with interest thereon at the rate of ten percent (10%) or the highest rate allowed by law, whichever is less, from the date of the expenditure until repaid. In addition, in the event a condition exists with respect to any portion of the Premises which Landlord is required to repair under the Lease, and such condition is the direct and immediate cause of an emergency situation which presents a clear and present threat to the physical safety of persons on or about the Premises or of property of Tenant or its agents, employees, or contractors located on or about the Premises, then subject to the following, Tenant shall be entitled to make such repairs as are reasonably necessary to reduce such threat to a reasonably acceptable level. As soon as Tenant becomes aware of any such condition, it shall make every reasonable effort to contact Landlord by telephone or in person and inform Landlord of the condition; if upon so informing Landlord of the condition, Landlord elects to correct the condition as soon as Tenant would otherwise be able to correct the condition, then Tenant shall have no right to correct the condition and Landlord shall correct the same. If Tenant is unable to contact Landlord after exhausting reasonable efforts to do so, or does in fact contact Landlord but Landlord does not elect to correct the condition as quickly as Tenant is able to correct the condition, then Tenant shall be entitled to make such repairs and shall have the right to demand reimbursement by Landlord of the cost thereof, with interest thereon at the rate of ten percent (10%) or

the highest rate allowed by law, whichever is less, from the date of the expenditure until repaid.

33. MORTGAGEE PROTECTION. In the event of any default on the part of Landlord, Tenant will give notice by registered or certified mail to any beneficiary of a deed or trust or mortgagee of a mortgage, encumbering the Premises whose address shall have been furnished to Tenant, and before exercising any remedy of Tenant to terminate this Lease, shall allow such beneficiary or mortgagee a reasonable opportunity to cure the default, including time to obtain possession of the Premises by power or sale or judicial foreclosure, if such should prove necessary to effect a cure.

34. General Provisions.

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34.1 ENTIRE AGREEMENT. This instrument including the Exhibits attached hereto contains all of the agreements and conditions made between the parties hereto and may not be modified orally or in any manner other than by an agreement in writing signed by all of the parties hereto or their respective successors in interest. Any executed copy of this Lease shall be deemed an original for all purposes.

34.2 TIME. Time is of the essence with respect to the performance of each and every provision of this Lease in which time of performance is a factor. All references to days contained in this Lease shall be deemed to mean calendar days, unless otherwise specifically stated.

34.3 CAPTIONS. The captions and headings of the numbered paragraphs of this Lease are inserted solely for the convenience of the parties hereto, and are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof.

34.4 CALIFORNIA LAW. This Lease shall be construed and interpreted in accordance with the laws of the State of California. The language in all parts of this Lease shall in all cases be construed as a whole according to its fair meaning and not strictly for or against either Landlord or Tenant, and without regard to which party prepared this Lease.

34.5 PARTIAL INVALIDITY. If any provision of this Lease is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remainder of the provisions hereof shall nonetheless continue in full force and effect and shall in no way be affected, impaired, or invalidated thereby.



34.6 NO WARRANTIES. Any agreements, warranties or representations not expressly contained herein shall not bind either Landlord or Tenant, and Landlord and Tenant expressly waive all claims for damages by reason of any statement, representation, warranty, promise or agreement, if any, not expressly contained in this Lease.

34.7 SUCCESSORS AND ASSIGNS. The covenants and conditions herein contained, subject to the provisions as to assignment, shall inure to the benefit of and bind the heirs, executors, administrators, assigns, and any other person or entity succeeding lawfully, and pursuant to the provisions of this Lease, to the rights or obligations of the respective parties hereto.

34.8 RULES AND REGULATIONS. Landlord may from time to time promulgate reasonable rules and regulations for the use, safety, care and cleanliness of the Premises and the Project. Such rules and regulations shall be binding upon Tenant upon delivery of a copy thereof to Tenant, and Tenant shall abide by all such rules and regulations. If there is a conflict between such rules and regulations and any of the provisions of this Lease, the provisions of this Lease shall prevail.

34.9 AUTHORITY. The individuals signing this Lease hereby represent and warrant that they have all necessary power and authority to execute and deliver this Lease on behalf of Landlord and Tenant, respectively.

34.10 MEMORANDUM OF LEASE. This Lease shall not be recorded. Concurrently with execution of this Lease, the parties shall execute and acknowledge a short form memorandum of this Lease in the form attached hereto as EXHIBIT "F". Simultaneously with execution of such memorandum, Tenant shall execute and deliver to Landlord for recordation upon the expiration or sooner termination of this Lease, a quitclaim deed to the Premises, in recordable form, designating Landlord as transferee. Any recordation by Landlord of such quitclaim deed prior to expiration or sooner termination of this Lease shall be deemed a default by Landlord hereunder. In the event Landlord later transfers its interest in the Premises prior to expiration or sooner termination of this Lease, such quitclaim deed shall be relinquished to Tenant and Tenant shall simultaneously execute and deliver to Landlord a new quitclaim deed designating Landlord's successor in interest as the transferee, which quitclaim deed shall again only be recorded upon expiration or sooner termination of this Lease.

34.11 REASONABLE EXPENDITURES. An expenditure by a party, for which such party shall demand reimbursement from the other party, shall be limited to the fair market value of the goods and services involved, shall be reasonably incurred, and

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shall be substantiated by documentary evidence available for inspection and review by the other party or its representative during normal business hours.

34.12 AMENDMENTS TO ACCOMMODATE LENDERS. Tenant agrees to execute any amendments required by a lender to enable Landlord to obtain replacement permanent financing so long as Tenant's rights and obligations hereunder are not materially adversely affected and provided such amendments are of the type normally required by such lender for similar loans. Tenant shall not have any obligations under any such agreements unless and until Tenant signs the same.

34.13 MERGER. The voluntary or other surrender of this Lease, or a mutual cancellation thereof, shall not work an automatic merger, but shall, at the sole option of Landlord, either terminate all or any existing subleases or subtenancies, or operate as an assignment to Landlord of any or all of such subleases or subtenancies.

34.14 FORCE MAJEURE. Any prevention of or delay in the performance by a party hereto of its obligations under this Lease caused by inclement weather, labor disputes (including strikes and lockouts), inability to obtain materials or reasonable substitutes therefor, governmental restrictions, regulations, controls, action or inaction, civil commotion, fire or other causes beyond the reasonable control of the party obligated to perform (except financial inability), shall excuse the performance by such party of its obligations hereunder (except the obligation of Tenant to pay rent and other sums hereunder) for a period of one day for each such day of delay.

34.15 EXHIBITS. The following exhibits are hereby made a part of this Lease.

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

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease on the dates set forth below.

LANDLORD:

TENANT:

FERRARI BROTHERS,  
a California general partnership

ANALOG DEVICES, INC.,  
a Massachusetts corporation

By: /s/ illegible  
-----

By: /s/ illegible  
-----

Its General Partners  
-----

Its Vice Pres., Finance  
-----

Dated: June 16-1996  
-----

Dated: June 7, 1995  
-----

EXHIBIT "A"  
(SCHEMATIC OF FLOOR PLAN)

## Legal Description

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

That portion of Lots 24 and 25, W.E. Crossman's Subdivision No. 3, as shown on a Map recorded in Book K of Maps, page 95, Records of Santa Clara County, California, being more particularly described as follows:

Beginning at a point on the Southeasterly line of Lot 25, as said Lot is shown on the Map of said Tract, said point being the Southeasterly corner of that certain tract of land described in the Deed to the city and County of San Francisco, recorded in Book 2155, Page 377 of Official Records;

thence along the Southeasterly line of said Lot 25, and the Southeasterly line of Lot 24, as shown upon said Map, S 15 degrees 37 minutes 51 seconds W. 367.21 feet, more or less to the Northeasterly corner of that certain tract of land conveyed to the State of California by Deed recorded in Book 4253, Page 92 of Official Records:

thence along the line of the land so conveyed to the State of California N. 70 degrees 09 minutes 03 seconds W. 263.24 feet;

thence along a tangent curve to the right with a radius of 358.00 feet, through an angle of 85 degrees 36 minutes 48 seconds an arc length of 534.94 feet to the property line common to the lands now or formerly of John Kulm, et ux, and of City and County of San Francisco, a municipal corporation; said point being distant thereon S. 73 degrees 35 minutes 22 seconds E. 133.01 feet from the center line of Fair Oaks Avenue, as said Avenue is shown upon said Map herein referred to:

thence Southeasterly along the Southwesterly line of the land of the City and County of San Francisco, 593.47 feet, more or less to the point of beginning.

Exhibit "B"

## PERFORMANCE SEMICONDUCTOR

TENANT IMPROVEMENTS  
610 E. Weddell Dr. by 1995 definition

## Description:

Office Area Construction (22)

Lobby

Conference Rooms (2)

Restroom/Shower Facility

Support Area (maint.)

Light Manufacturing (Rooms 3) Area

Exterior Storage Rooms (2)

Cafeteria (1242)

Corridor System (1hr)

HVAC Units (6) #1, #2, #3, #4, #8

Ceiling Tile System

Fire Sprinklers Above/Below Ceiling

Floor System Carpet/Tile

Electrical Sub-Panels/Fit-Up

Lighting

Painting

Exhaust Fans

Hot Water Heater

Exhibit "C"

Plan A 610-TI's

## PERFORMANCE SEMICONDUCTOR

WAFER MANUFACTURING ADDITIONAL IMPROVEMENTS  
610 E. Weddell Dr. by 1995 definition

## Description:

Clean Room Tunnels 1 (15), 2 (11), 3 (11), 4 (10), 5 (12)

Air Handlers/Duct furnace/Cooling coils: #1, #2, #3, #4

Air Showers (3)

Fir Sprinklers Manufacturing and Exhaust Ducting

Exhaust Scrubber #1 and #2/Duct Work

Alarm/Detection System

Emergency Generator System

Vacuum System A/B

Floor System (Mipolam)

Electrical Fit-Up Manufacturing Support Equipment

Lighting

Process Piping Gas (ss) (cu)

Process Piping D.I. (PVDF), Awn Drain Lines (PVC, CPVC)

Process Piping Trench System

External Support Equipment and Tank Farm

Process Chilled Water System, Mixing Manifold, Piping Extension, Electrical Panel

Acid and HF Waste Treatment Equipment/System/Vault

Tunnel #3 Wall System, Temperature/Humidity Control

Exhibit "D"

FAC-AI

RECORDING REQUESTED BY, AND  
WHEN RECORDED RETURN TO:

Lindell Van Dyke, Esq.  
1265 Montecito Avenue  
Mountain View, CA 94043

NON-DISTURBANCE AGREEMENT  
610 Weddell Drive -- Fabrication Facility

THIS NON-DISTURBANCE AGREEMENT (the "Agreement") is made and entered into as of the 16th day of June, 1995, by and among Analog Devices, Inc., a Massachusetts corporation ("Tenant"), FERRARI BROTHERS, a California general partnership ("Landlord"), and COAST FEDERAL BANK, formerly known as Coast Savings and Loan Association, ("Lender"), based on the follows:

A. Landlord and Tenant have executed a lease (the "Lease") dated as of June 16, 1995 covering certain premises therein described (the "Premises") consisting of approximately 27,379 square feet of floor space in an approximately 63,500 square foot building located on that certain parcel of real estate commonly known as 610,620, and 630 Weddell Drive, Sunnyvale, California. A legal description of said parcel is attached hereto and incorporated herein by this reference as Exhibit "A" (said parcel of real estate and the Premises are sometimes collectively referred to herein as the "Property");

B. Landlord has executed a First Deed of Trust (the "Deed of Trust") recorded on May 22, 1985 as Instrument No. 8417024 Book J353, Page 195 et seq. of the Official Records of Santa Clara County, California in favor of Lender, payable upon the terms and conditions described therein;

C. The parties desire to acknowledge that the loan secured by the Deed of Trust shall unconditionally be and remain at all times a lien or charge upon the Property, prior and superior to the Lease and to the leasehold estate created thereby; and

D. The parties hereto desire to assure Tenant's possession and control of the Property under this Lease upon the terms and conditions therein contained.

NOW THEREFORE, for and in consideration of the mutual covenants and promises herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the parties hereto, the parties agree as follows:

AGREEMENT

1. The Lease is and shall be subject and subordinate to the Deed of Trust, and to all renewals, modifications, consolidations, replacements and extensions thereof, and to all future advances made thereunder.

Analog Devices Nondisturbance Agreement  
June 16, 1995



2. Should Lender become the owner of the Property, or should the Property be sold by reason of foreclosure, or other proceedings brought to enforce the Deed of Trust which encumbers the Property, or should the Property be transferred by deed in lieu of foreclosure, or should any portion of the Property be sold under a trustee's sale, the Lease shall continue in full force and effect as a direct lease between the then owner of the Property covered by the Deed of Trust and Tenant, upon, and subject to, all of the terms, covenants and conditions of the Lease for the balance of the term thereof remaining, including any extension therein provided. Tenant does hereby agree to attorn to Lender or to any such owner as its landlord, and Lender hereby agrees that it will accept such attornment.

3. Notwithstanding any other provision of this Agreement, Lender shall not be (a) liable for any previously accrued default of any landlord under the Lease (including Landlord) as of the date Lender forecloses or otherwise takes title to the Property; (b) subject to any offsets or defenses which have accrued prior to the date of foreclosure, unless Tenant shall have delivered to lender written notice of the default which gave rise to such offset or defense and permitted Lender the same right to cure such default as is permitted Landlord under the Lease; (c) bound by any rent or other sums that Tenant may have paid under the Lease more than one month in advance; (d) bound by any amendment or modification of the Lease hereafter made without Lender's prior written consent; (e) responsible for the return of any security deposit delivered to Landlord under the Lease and not subsequently received by Lender.

4. If Lender sends written notice to Tenant to direct its rent payments under the Lease to Lender instead of Landlord, then Tenant agrees to follow the instructions set forth in such written instructions and deliver rent payments to Lender; however, Landlord and Lender agree that Tenant shall be credited under the Lease for any rent payments sent to lender pursuant to such written notice.

5. All notices which may or are required to be sent under this Agreement shall be in writing and shall be sent by first class certified U.S. mail, postage prepaid, return receipt requested, and sent to the party at the address appearing below its signature hereof or such other address as any party shall hereafter inform the other party by written notice given as set forth above. All notices delivered as set forth above shall be deemed effective five (5) days after the posted date of deposit in the U.S. mail.

6. The Deed of Trust shall not cover or encumber and shall not be construed as subjecting in any manner to the lien thereof any of Tenant's trade fixtures, furniture, equipment or other personal property at any time placed or installed in the Premises, or the Additional Improvements (as defined in the Lease).

7. Landlord and Tenant each acknowledges that the other is not in default or breach of any of its obligations under the Lease as of the date hereof.

Analog Devices Nondisturbance Agreement  
June 16, 1995

8. this Non-Disturbance Agreement shall inure to the benefit of and be binding upon the parties hereto, their successors in interest, heirs and assigns and any subsequent owner of the Property secured by the Deed of Trust.

9. Should any action or proceeding be commenced to enforce any of the provisions of this Non-Disturbance Agreement or in connection with its meaning, the prevailing party in such action shall be awarded, in addition to any other relief it may obtain, its reasonable costs and expenses and reasonable attorneys' fees.

IN WITNESS WHEREOF, the parties hereto have caused this Non-Disturbance Agreement to be executed as of the day and year first above written.

LENDER:

COAST FEDERAL BANK,  
a

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By: -----

Name: -----

Title: -----

-----

-----

-----  
(address)

TENANT:

Analog Devices Inc.,  
a Massachusetts corporations

By: -----

Its: -----

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-----

-----  
(address)

Analog Devices Nondisturbance Agreement  
June 16, 1995

LANDLORD:

FERRARI BROTHERS,  
a California general partnership

By:

-----  
Ray Ferrari, general partner

1265 Montecito Ave., Suite 200  
Mountain View, CA 94043  
Attn: Ray Ferrari

Analog Devices Nondisturbance Agreement  
June 16, 1995

(Acknowledgement of Lender)

STATE OF CALIFORNIA )  
 )SS.  
COUNTY OF LOS ANGELES )

On June 16, 1995 before me, Lynda C. Thomas, a Notary Public in and for said County and State, personally appeared Patrick Senske, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed same in his authorized capacity, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature: -----

Analog Devices Nondisturbance Agreement  
June 16, 1995

RECORDING REQUESTED BY AND  
WHEN RECORDED RETURN TO:

Lindell Van Dyke, Esq.  
10600 N. DeAnza Blvd., Ste 100  
Cupertino, CA 95014

MEMORANDUM OF LEASE

This Memorandum of Lease, dated June , 1995 for reference purposes only, is made and entered into between FERRARI BROTHERS, a California general partnership (hereafter called "Landlord"), and Analog Devices, Inc., a Massachusetts corporation (hereafter called ("Tenant")).

Landlord hereby leases to Tenant certain premises consisting of approximately twenty-seven thousand three hundred seventy-nine (27,379) square feet (the "Premises") within that certain building (the "Building") located at 610 Weddell Drive, Sunnyvale, California. A legal description of the parcel of land on which the Building is situated is attached as Exhibit "A" hereto and incorporated herein by reference. Such lease is governed by the provisions of that certain unrecorded lease between the parties hereto (the "Lease"), dated June , 1995, which provisions are incorporated herein by reference as though written out at length herein. Terms undefined herein shall have the meanings ascribed to them in the Lease.

The term of the Lease shall be the five (5) year period commencing on June , 1995 and ending on March 31, 2000. Tenant shall have three options to extend the term for successive additional periods of five (5) years each on the terms set forth in the Lease.

The purpose of this Memorandum of Lease is to give notice of the existence of the Lease. This Memorandum in no way modifies the Lease or any terms thereof.

EXHIBIT "F"  
F-1

IN WITNESS WHEREOF, the parties hereto have caused this Memorandum of Lease to be executed as of the day and year first above written.

TENANT:

Analog Devices Inc.,  
a Massachusetts corporations

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

LANDLORD:

FERRARI BROTHERS,  
a California general partnership

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

Exhibit "F"  
F-2

(Acknowledgement of Landlord)

STATE OF MASSACHUSETTS )  
 )SS.  
COUNTY OF NORFOLK )

On June 7, 1995 before me, Janet A. Sweeney, a Notary Public in and for said County and State, personally appeared Joseph E. McDonough, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed same in his authorized capacity, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

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

Exhibit "F"  
F-3

SUBSIDIARIES

The following is a list of the Company's subsidiaries:

	ORGANIZED UNDER LAW OF -----	PERCENTAGE OF VOTING SECURITIES OWNED BY REGISTRANT AS OF OCTOBER 28, 1995 -----
Analog Devices Limited	United Kingdom	100%
Analog Devices, GmbH	Germany	100%
Analog Devices, S.A.	France	100%
Analog Devices, K.K.	Japan	100%
Analog Devices APS	Denmark	100%
Analog Devices Nederland, B.V.	The Netherlands	100%
Analog Devices International, Inc.	Massachusetts	100%
Analog Devices Israel, Ltd.	Israel	100%
Analog Devices A.B.	Sweden	100%
Analog Devices SRL	Italy	100%
Analog Devices, HDLSGESMBH M.B.H.	Austria	100%
Analog Devices Korea, Ltd.	Korea	100%
Analog Devices, B.V.	The Netherlands	100%
Analog Devices Finance N.V.	Netherlands Antilles	100%
Analog Devices Holdings, B.V.	The Netherlands	100%
Analog Devices Research & Development Ltd.	Ireland	100%
Analog Devices (Philippines), Inc.	The Philippines	100%
Analog Devices Foreign Sales Corporation, B.V.	The Netherlands	100%
Analog Devices Foundry Services, Inc.	Delaware	100%
Analog Devices Asian Sales, Inc.	Delaware	100%
Analog Devices Taiwan, Ltd.	Taiwan	100%
Analog Devices Ireland, Ltd.	Ireland	100%
Analog Devices Hong Kong, Ltd.	Hong Kong	100%
Analog Devices Proprietary, Ltd.	Australia	100%
Analog Devices India Private Limited	India	100%
Analog Devices Gen. Trias, Inc.	Philippines	100%
Analog Devices International Financial Services Company	Ireland	100%
Analog Devices Foreign Sales Corporation.	Barbados	100%
Analyzed Investments, Ltd.	Ireland	54%
Analog/NCT Supply Ltd.	Delaware	50%
Analog Devices Realty Holdings, Inc.	Philippines	40%
Analog Supplies Company	Japan	15%

The financial statements of all wholly owned subsidiaries are included in the Consolidated Financial Statements listed in the Index to Consolidated Financial Statements appearing elsewhere herein.



CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 2-63561, 2-69122, 2-77321, 2-90023, 2-95495, 33-2502, 33-4067, 33-22604, 33-22605, 33-29484, 33-39851, 33-39852, 33-43128, 33-46520, 33-46521, 33-60696, 33-60642, 33-61427 and 33-64849) of Analog Devices, Inc. of our report dated November 28, 1995, except for the fifth paragraph of Note 4 as to which the date is December 18, 1995, with respect to the consolidated financial statements and schedule of Analog Devices, Inc. included in this Annual Report (Form 10-K) for the year ended October 28, 1995.

ERNST & YOUNG LLP

Boston, Massachusetts  
January 22, 1996

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF ANALOG DEVICES, INC. FOR THE YEAR ENDED OCTOBER 28, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000  
U.S. Dollars

YEAR		
	OCT-28-1995	
	OCT-30-1994	
	OCT-28-1995	
	1	69,303
		81,810
		185,766
		4,439
		143,962
	526,018	856,267
		424,305
	1,001,648	
254,388		80,000
		19,098
	0	
		0
		636,868
1,001,648		941,546
	941,546	
		464,571
	464,571	
	319,208	
	0	
	4,201	
	159,435	
	40,165	
119,270		
	0	
	0	
		0
	119,270	
	1.00	
	1.00	